

**FORM 10-Q**  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended May 31, 2007

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 001-08495**

**CONSTELLATION BRANDS, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**16-0716709**

(I.R.S. Employer  
Identification No.)

**370 Woodcliff Drive, Suite 300, Fairport, New York**

(Address of principal executive offices)

**14450**

(Zip Code)

**(585) 218-3600**

(Registrant's telephone number, including area code)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of June 30, 2007, is set forth below:

<b><u>Class</u></b>	<b><u>Number of Shares Outstanding</u></b>
Class A Common Stock, Par Value \$.01 Per Share	191,759,160
Class B Common Stock, Par Value \$.01 Per Share	23,819,238

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*This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company’s control, that could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. For further information regarding such forward-looking statements, risks and uncertainties, please see “Information Regarding Forward-Looking Statements” under Part I - Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report on Form 10-Q.*

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in millions, except share and per share data)  
(unaudited)

	May 31, 2007	February 28, 2007
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash investments	\$ 33.5	\$ 33.5
Accounts receivable, net	763.9	881.0
Inventories	1,955.3	1,948.1
Prepaid expenses and other	156.6	160.7
Total current assets	<u>2,909.3</u>	<u>3,023.3</u>
PROPERTY, PLANT AND EQUIPMENT, net	1,744.2	1,750.2
GOODWILL	3,348.9	3,083.9
INTANGIBLE ASSETS, net	1,218.9	1,135.4
OTHER ASSETS, net	604.9	445.4
Total assets	<u>\$ 9,826.2</u>	<u>\$ 9,438.2</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Notes payable to banks	\$ 242.3	\$ 153.3
Current maturities of long-term debt	362.8	317.3
Accounts payable	270.6	376.1
Accrued excise taxes	64.9	73.7
Other accrued expenses and liabilities	566.9	670.7
Total current liabilities	<u>1,507.5</u>	<u>1,591.1</u>
LONG-TERM DEBT, less current maturities	<u>4,381.8</u>	<u>3,714.9</u>
DEFERRED INCOME TAXES	<u>490.8</u>	<u>474.1</u>
OTHER LIABILITIES	<u>317.8</u>	<u>240.6</u>
STOCKHOLDERS' EQUITY:		
Class A Common Stock, \$.01 par value-		
Authorized, 300,000,000 shares;		
Issued, 219,840,821 shares at May 31, 2007,		
and 219,090,309 shares at February 28, 2007	2.2	2.2
Class B Convertible Common Stock, \$.01 par value-		
Authorized, 30,000,000 shares;		
Issued, 28,826,638 shares at May 31, 2007,		
and 28,831,138 shares at February 28, 2007	0.3	0.3
Additional paid-in capital	1,292.4	1,271.1
Retained earnings	1,949.1	1,919.3
Accumulated other comprehensive income	508.2	349.1
	<u>3,752.2</u>	<u>3,542.0</u>
Less-Treasury stock-		
Class A Common Stock, 28,324,992 shares at		
May 31, 2007, and 8,046,370 shares at		
February 28, 2007, at cost	(621.7)	(122.3)
Class B Convertible Common Stock, 5,005,800 shares		
at May 31, 2007, and February 28, 2007, at cost	(2.2)	(2.2)
	<u>(623.9)</u>	<u>(124.5)</u>
Total stockholders' equity	<u>3,128.3</u>	<u>3,417.5</u>
Total liabilities and stockholders' equity	<u>\$ 9,826.2</u>	<u>\$ 9,438.2</u>

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(in millions, except per share data)  
(unaudited)

	For the Three Months Ended May 31,	
	2007	2006
SALES	\$ 1,175.4	\$ 1,430.2
Less - Excise taxes	(274.2)	(274.3)
Net sales	901.2	1,155.9
COST OF PRODUCT SOLD	(633.0)	(837.3)
Gross profit	268.2	318.6
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(197.6)	(172.6)
ACQUISITION-RELATED INTEGRATION COSTS	(2.0)	(0.7)
RESTRUCTURING AND RELATED CHARGES	(0.4)	(2.3)
Operating income	68.2	143.0
EQUITY IN EARNINGS OF EQUITY METHOD INVESTEEs	75.8	0.1
INTEREST EXPENSE, net	(79.7)	(48.7)
GAIN ON CHANGE IN FAIR VALUE OF DERIVATIVE INSTRUMENT	-	52.5
Income before income taxes	64.3	146.9
PROVISION FOR INCOME TAXES	(34.5)	(61.4)
NET INCOME	29.8	85.5
Dividends on preferred stock	-	(2.5)
INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ 29.8	\$ 83.0

SHARE DATA:

Earnings per common share:

Basic - Class A Common Stock	\$ 0.13	\$ 0.38
Basic - Class B Common Stock	\$ 0.12	\$ 0.34
Diluted - Class A Common Stock	\$ 0.13	\$ 0.36
Diluted - Class B Common Stock	\$ 0.12	\$ 0.33

Weighted average common shares outstanding:

Basic - Class A Common Stock	205.636	199.571
Basic - Class B Common Stock	23.824	23.853
Diluted - Class A Common Stock	233.439	240.100
Diluted - Class B Common Stock	23.824	23.853

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)  
(unaudited)

	For the Three Months Ended May 31,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 29.8	\$ 85.5
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation of property, plant and equipment	36.1	26.7
Stock-based compensation expense	9.4	3.6
Loss on disposal of business	6.3	17.3
Deferred tax provision	3.6	15.6
Amortization of intangible and other assets	2.6	2.0
Loss on disposal or impairment of long-lived assets, net	0.8	0.3
Equity in earnings of equity method investees, net of distributed earnings	(46.6)	(0.1)
Gain on change in fair value of derivative instrument	-	(52.5)
Change in operating assets and liabilities, net of effects from purchases and sales of businesses:		
Accounts receivable, net	(38.9)	(66.4)
Inventories	(28.0)	(31.3)
Prepaid expenses and other current assets	(4.7)	(10.9)
Accounts payable	(23.1)	45.4
Accrued excise taxes	1.9	(9.7)
Other accrued expenses and liabilities	(17.6)	(12.2)
Other, net	(17.7)	(7.7)
Total adjustments	(115.9)	(79.9)
Net cash (used in) provided by operating activities	(86.1)	5.6
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of business, net of cash acquired	(385.5)	-
Purchases of property, plant and equipment	(17.7)	(45.1)
Payment of accrued earn-out amount	(2.9)	(1.1)
Proceeds from formation of joint venture	185.6	-
Proceeds from sales of businesses	3.0	28.0
Proceeds from sales of assets	1.8	0.7
Other investing activities	-	(2.1)
Net cash used in investing activities	(215.7)	(19.6)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term debt	716.1	-
Net proceeds from notes payable	89.9	83.9
Exercise of employee stock options	7.0	8.6
Excess tax benefits from share-based payment awards	5.0	2.8
Purchases of treasury stock	(500.0)	-
Principal payments of long-term debt	(9.0)	(52.6)
Payment of financing costs of long-term debt	(5.3)	-
Payment of preferred stock dividends	-	(2.5)
Net cash provided by financing activities	303.7	40.2
Effect of exchange rate changes on cash and cash investments	(1.9)	0.4
NET INCREASE IN CASH AND CASH INVESTMENTS	-	26.6
CASH AND CASH INVESTMENTS, beginning of period	33.5	10.9
CASH AND CASH INVESTMENTS, end of period	\$ 33.5	\$ 37.5
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Fair value of assets acquired, including cash acquired	\$ 427.2	\$ -
Liabilities assumed	(39.9)	-
Net assets acquired	387.3	-
Less - cash acquired	(1.6)	-
Less - direct acquisition costs accrued	(0.2)	-
Net cash paid for purchases of businesses	\$ 385.5	\$ -

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2007

1) MANAGEMENT'S REPRESENTATIONS:

The consolidated financial statements included herein have been prepared by Constellation Brands, Inc. and its subsidiaries (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission applicable to quarterly reporting on Form 10-Q and reflect, in the opinion of the Company, all adjustments necessary to present fairly the financial information for the Company. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted as permitted by such rules and regulations. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2007. Results of operations for interim periods are not necessarily indicative of annual results.

2) RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS:

Effective March 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN No. 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition (see Note 9).

3) ACQUISITIONS:

*Acquisition of Svedka -*

On March 19, 2007, the Company acquired the SVEDKA Vodka brand ("Svedka") in connection with the acquisition of Spirits Marque One LLC and related business (the "Svedka Acquisition"). Svedka is a premium Swedish vodka. The acquisition of Svedka supports the Company's strategy of expanding the Company's premium spirits business. The acquisition provides a foundation from which the Company looks to leverage its existing and future premium spirits portfolio for growth. In addition, Svedka complements the Company's existing portfolio of super-premium and value vodka brands by adding a premium vodka brand.

Total consideration paid in cash for the Svedka Acquisition was \$385.4 million. In addition, the Company expects to incur direct acquisition costs of approximately \$1.3 million. The purchase price is subject to final closing adjustments which the Company does not expect to be material. The purchase price was financed with revolver borrowings under the Company's 2006 Credit Agreement (as defined in Note 8). In accordance with the purchase method of accounting, the acquired net assets are recorded at fair value at the date of acquisition. The purchase price was based primarily on the estimated future operating results of the Svedka business, including the factors described above.

The results of operations of the Svedka business are reported in the Constellation Spirits segment and have been included in the consolidated results of operations of the Company from the date of acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in the Svedka Acquisition at the date of acquisition. The Company is in the process of obtaining third-party valuations of certain assets and liabilities. Accordingly, the allocation of the purchase price is preliminary and subject to change. Estimated fair values at March 19, 2007, are as follows:

<i>(in millions)</i>	
Current assets	\$ 20.1
Property, plant and equipment	0.1
Goodwill	349.3
Trademark	36.4
Other assets	<u>20.7</u>
Total assets acquired	426.6
Current liabilities	23.8
Long-term liabilities	<u>16.1</u>
Total liabilities assumed	<u>39.9</u>
Net assets acquired	<u>\$ 386.7</u>

The trademark is not subject to amortization. Approximately \$85 million of the goodwill is expected to be deductible for tax purposes.

*Acquisition of Vincor -*

On June 5, 2006, the Company acquired all of the issued and outstanding common shares of Vincor International Inc. ("Vincor"), Canada's premier wine company. Vincor is Canada's largest producer and marketer of wine. At the time of the acquisition, Vincor was the world's eighth largest producer and distributor of wine and related products by revenue and was also one of the largest wine importers, marketers and distributors in the U.K. Through this transaction, the Company acquired various additional winery and vineyard interests used in the production of premium, super-premium and fine wines from Canada, California, Washington State, Western Australia and New Zealand. In addition, as a result of the acquisition, the Company sources, markets and sells premium wines from South Africa. Well-known premium brands acquired in the acquisition of Vincor include Inniskillin, Jackson-Triggs, Sawmill Creek, Sumac Ridge, R.H. Phillips, Toasted Head, Hogue, Kim Crawford and Kumala.

The acquisition of Vincor supports the Company's strategy of strengthening the breadth of its portfolio across price segments and geographic regions to capitalize on the overall growth in the wine industry. In addition to complementing the Company's current operations in the U.S., U.K., Australia and New Zealand, the acquisition of Vincor increases the Company's global presence by adding Canada as another core market and provides the Company with the ability to capitalize on broader geographic distribution in strategic international markets. In addition, the acquisition of Vincor makes the Company the largest wine company in Canada and strengthens the Company's position as the largest wine company in the world and the largest premium wine company in the U.S.

Total consideration paid in cash to the Vincor shareholders was \$1,115.8 million. In addition, the Company incurred direct acquisition costs of \$11.4 million. At closing, the Company also assumed outstanding indebtedness of Vincor, net of cash acquired, of \$320.2 million. The purchase price was financed with borrowings under the Company's June 2006 Credit Agreement (as defined in Note 8). In accordance with the purchase method of accounting, the acquired net assets are recorded at fair value at the date of acquisition. The purchase price was based primarily on the estimated future operating results of the Vincor business, including the factors described above, as well as an estimated benefit from operating cost synergies.

In connection with the acquisition of Vincor, the Company entered into a foreign currency forward contract to fix the U.S. dollar cost of the acquisition and the payment of certain outstanding indebtedness in April 2006. During the three months ended May 31, 2006, the Company recorded a gain of \$52.5 million in connection with this derivative instrument. Under Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended, a transaction that involves a business combination is not eligible for hedge accounting treatment. As such, the gain was recognized separately on the Company's Consolidated Statements of Income.

The results of operations of the Vincor business are reported in the Constellation Wines segment and have been included in the Consolidated Statements of Income since the acquisition date.

The following table summarizes the fair values of the assets acquired and liabilities assumed in the acquisition of Vincor at the date of acquisition:

<i>(in millions)</i>	
Current assets	\$ 390.5
Property, plant and equipment	241.4
Goodwill	876.8
Trademarks	224.3
Other assets	<u>49.5</u>
Total assets acquired	1,782.5
Current liabilities	418.3
Long-term liabilities	<u>237.0</u>
Total liabilities assumed	<u>655.3</u>
Net assets acquired	<u>\$ 1,127.2</u>

The trademarks are not subject to amortization. None of the goodwill is expected to be deductible for tax purposes.

The following table sets forth the unaudited historical results of operations and the unaudited pro forma results of operations of the Company for the three months ended May 31, 2007, and May 31, 2006, respectively. Unaudited pro forma results of operation of the Company for the three months ended May 31, 2007, are not presented to give effect to the Svedka Acquisition as if it had occurred on March 1, 2006, as they are not significant. The unaudited pro forma results of operations for the three months ended May 31, 2006, give effect to the Svedka Acquisition and the acquisition of Vincor as if they occurred on March 1, 2006. The unaudited pro forma results of operations are presented after giving effect to certain adjustments for depreciation, amortization of certain intangible assets and deferred financing costs, interest expense on the acquisition financing, interest expense associated with adverse grape contracts, and related income tax effects. The unaudited pro forma results of operations are based upon currently available information and certain assumptions that the Company believes are reasonable under the circumstances. The unaudited pro forma results of operations for the three months ended May 31, 2006, do not reflect total pretax nonrecurring charges of \$29.5 million (\$0.09 per share on a diluted basis) related to transaction costs, primarily for the acceleration of vesting of stock options, legal fees and investment banker fees, all of which were incurred by Vincor prior to the acquisition. The unaudited pro forma results of operations do not purport to present what the Company's results of operations would actually have been if the aforementioned transactions had in fact occurred on such date or at the beginning of the period indicated, nor do they project the Company's financial position or results of operations at any future date or for any future period.



	For the Three Months Ended May 31,	
	2007	2006
<i>(in millions, except per share data)</i>		
Net sales	\$ 901.2	\$ 1,282.5
Income before income taxes	\$ 64.3	\$ 97.1
Net income	\$ 29.8	\$ 52.4
Income available to common stockholders	\$ 29.8	\$ 49.9
Earnings per common share - basic:		
Class A Common Stock	<u>\$ 0.13</u>	<u>\$ 0.23</u>
Class B Common Stock	<u>\$ 0.12</u>	<u>\$ 0.21</u>
Earnings per common share - diluted:		
Class A Common Stock	<u>\$ 0.13</u>	<u>\$ 0.22</u>
Class B Common Stock	<u>\$ 0.12</u>	<u>\$ 0.20</u>
Weighted average common shares outstanding - basic:		
Class A Common Stock	205.636	199.571
Class B Common Stock	23.824	23.853
Weighted average common shares outstanding - diluted:		
Class A Common Stock	233.439	240.100
Class B Common Stock	23.824	23.853

4) INVENTORIES:

Inventories are stated at the lower of cost (computed in accordance with the first-in, first-out method) or market. Elements of cost include materials, labor and overhead and consist of the following:

	May 31, 2007	February 28, 2007
<i>(in millions)</i>		
Raw materials and supplies	\$ 108.1	\$ 106.5
In-process inventories	1,294.5	1,264.4
Finished case goods	<u>552.7</u>	<u>577.2</u>
	<u>\$ 1,955.3</u>	<u>\$ 1,948.1</u>

5) GOODWILL:

The changes in the carrying amount of goodwill for the three months ended May 31, 2007, are as follows:

	Constellation Wines	Constellation Spirits	Crown Imports	Consolidations and Eliminations	Consolidated
<i>(in millions)</i>					
Balance, February 28, 2007	\$ 2,939.5	\$ 144.4	\$ 13.0	\$ (13.0)	\$ 3,083.9
Purchase accounting allocations	(8.0)	349.3	-	-	341.3
Foreign currency translation adjustments	64.4	1.4	-	-	65.8
Purchase price earn-out	1.3	-	-	-	1.3
Disposal of business	<u>(143.4)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(143.4)</u>
Balance, May 31, 2007	<u>\$ 2,853.8</u>	<u>\$ 495.1</u>	<u>\$ 13.0</u>	<u>\$ (13.0)</u>	<u>\$ 3,348.9</u>

The Constellation Spirits segment's purchase accounting allocations totaling \$349.3 million consist of purchase accounting allocations primarily associated with the Svedka Acquisition. The Constellation Wines segment's purchase accounting allocations totaling (\$8.0) million consist primarily of a reduction of \$17.0 million in connection with an adjustment to income taxes payable acquired in a prior acquisition, partially offset by final purchase accounting allocations associated with the acquisition of Vincor of \$8.7 million. The Constellation Wines segment's disposal of business of \$143.4 million consists of the Company reduction of goodwill in connection with the Company's contribution of its U.K. wholesale business associated with the formation of a joint venture with Punch Taverns plc ("Punch") (see Note 7).

6) INTANGIBLE ASSETS:

The major components of intangible assets are as follows:

	May 31, 2007		February 28, 2007	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
<i>(in millions)</i>				
Amortizable intangible assets:				
Customer relationships	\$ 55.2	\$ 52.7	\$ 32.9	\$ 31.3
Distribution agreements	19.9	6.7	19.9	6.9
Other	<u>3.4</u>	<u>2.0</u>	<u>2.4</u>	<u>1.1</u>
Total	<u>\$ 78.5</u>	61.4	<u>\$ 55.2</u>	39.3
Nonamortizable intangible assets:				
Trademarks		1,153.3		1,091.9
Agency relationships		<u>4.2</u>		<u>4.2</u>
Total		<u>1,157.5</u>		<u>1,096.1</u>
Total intangible assets		<u>\$ 1,218.9</u>		<u>\$ 1,135.4</u>

The difference between the gross carrying amount and net carrying amount for each item presented is attributable to accumulated amortization. Amortization expense for intangible assets was \$1.1 million and \$0.6 million for the three months ended May 31, 2007, and May 31, 2006, respectively. Estimated amortization expense for the remaining nine months of fiscal 2008 and for each of the five succeeding fiscal years and thereafter is as follows:

<i>(in millions)</i>		
2008	\$	3.5
2009	\$	4.6
2010	\$	4.6
2011	\$	4.5
2012	\$	3.9
2013	\$	3.7
Thereafter	\$	36.6

7) OTHER ASSETS:

*Investment in Matthew Clark -*

On April 17, 2007, the Company and Punch commenced operations of a joint venture for the U.K. wholesale business ("Matthew Clark"). The U.K. wholesale business was formerly owned entirely by the Company. Under the terms of the arrangement, the Company and Punch, directly or indirectly, each have a 50% voting and economic interest in Matthew Clark. The Company received \$185.6 million of cash proceeds from the formation of the joint venture.

Upon formation of the joint venture, the Company discontinued consolidation of the U.K. wholesale business and accounts for the investment in Matthew Clark under the equity method. Accordingly, the results of operations of Matthew Clark are included in the equity in earnings of equity method investees line in the Company's Consolidated Statements of Income from the date of investment. As of May 31, 2007, the Company's investment in Matthew Clark was \$70.3 million.

*Investment in Crown Imports -*

On January 2, 2007, Barton Beers, Ltd. ("Barton"), an indirect wholly-owned subsidiary of the Company, and Diblo, S.A. de C.V. ("Diblo"), an entity owned 76.75% by Grupo Modelo, S.A. de C.V. ("Modelo") and 23.25% by Anheuser-Busch, Inc., completed the formation of Crown Imports LLC ("Crown Imports"), a joint venture in which Barton and Diblo each have, directly or indirectly, equal interests. Crown Imports has the exclusive right to import, market and sell Modelo's Mexican beer portfolio (the "Modelo Brands") in the 50 states of the U.S., the District of Columbia and Guam. In addition, the owners of the Tsingtao and St. Pauli Girl brands have transferred exclusive importing, marketing and selling rights with respect to those brands in the U.S. to the joint venture. The importer agreement that previously gave Barton the exclusive right to import, market and sell the Modelo Brands primarily west of the Mississippi River was superseded by the transactions consummated by the newly formed joint venture.

Upon commencement of operations of the joint venture, the Company discontinued consolidation of the imported beer business and accounts for the investment in Crown Imports under the equity method. Accordingly, the results of operations of Crown Imports are included in the equity in earnings of equity method investees line in the Company's Consolidated Statements of Income from the date of investment. As of May 31, 2007, the Company's investment in Crown Imports was \$208.8 million. The carrying amount of the investment is greater than the Company's equity in the underlying assets of Crown Imports by \$13.6 million due to the difference in the carrying amounts of the indefinite lived intangible assets contributed to Crown Imports by each party.

Summary financial information for Crown Imports for the three months ended May 31, 2007, is presented below. The amounts shown represent 100% of Crown Imports consolidated operating results.

	For the Three Months Ended May 31, 2007
<i>(in millions)</i>	
Net sales	<u>\$ 658.1</u>
Gross profit	<u>\$ 204.7</u>
Net income	<u>\$ 146.4</u>

8) BORROWINGS:

*Senior credit facility -*

In connection with the acquisition of Vincor, on June 5, 2006, the Company and certain of its U.S. subsidiaries, JPMorgan Chase Bank, N.A. as a lender and administrative agent, and certain other agents, lenders, and financial institutions entered into a new credit agreement (the "June 2006 Credit Agreement"). On February 23, 2007, the June 2006 Credit Agreement was amended (the "February Amendment"). The June 2006 Credit Agreement together with the February Amendment is referred to as the "2006 Credit Agreement". The 2006 Credit Agreement provides for aggregate credit facilities of \$3.9 billion, consisting of a \$1.2 billion tranche A term loan facility due in June 2011, a \$1.8 billion tranche B term loan facility due in June 2013, and a \$900 million revolving credit facility (including a sub-facility for letters of credit of up to \$200 million) which terminates in June 2011. Proceeds of the June 2006 Credit Agreement were used to pay off the Company's obligations under its prior senior credit facility, to fund the acquisition of Vincor and to repay certain indebtedness of Vincor. The Company uses its revolving credit facility under the 2006 Credit Agreement for general corporate purposes, including working capital, on an as needed basis.

As of May 31, 2007, the required principal repayments of the tranche A term loan and the tranche B term loan for the remaining nine months of fiscal 2008 and for each of the five succeeding fiscal years are as follows:

<i>(in millions)</i>	<u>Tranche A Term Loan</u>	<u>Tranche B Term Loan</u>	<u>Total</u>
2008	\$ 90.0	\$ 7.6	\$ 97.6
2009	210.0	15.2	225.2
2010	270.0	15.2	285.2
2011	300.0	15.2	315.2
2012	150.0	15.2	165.2
2013	-	1,431.6	1,431.6
	<u>\$ 1,020.0</u>	<u>\$ 1,500.0</u>	<u>\$ 2,520.0</u>

The rate of interest on borrowings under the 2006 Credit Agreement is a function of LIBOR plus a margin, the federal funds rate plus a margin, or the prime rate plus a margin. The margin is fixed with respect to the tranche B term loan facility and is adjustable based upon the Company's debt ratio (as defined in the 2006 Credit Agreement) with respect to the tranche A term loan facility and the revolving credit facility. As of May 31, 2007, the LIBOR margin for the revolving credit facility and the tranche A term loan facility is 1.25%, while the LIBOR margin on the tranche B term loan facility is 1.50%.

The February Amendment amended the June 2006 Credit Agreement to, among other things, (i) increase the revolving credit facility from \$500.0 million to \$900.0 million, which increased the aggregate credit facilities from \$3.5 billion to \$3.9 billion; (ii) increase the aggregate amount of cash payments the Company is permitted to make in respect or on account of its capital stock; (iii) remove certain limitations on the application of proceeds from the incurrence of senior unsecured indebtedness; (iv) increase the maximum permitted total "Debt Ratio" and decrease the required minimum "Interest Coverage Ratio"; and (v) eliminate the "Senior Debt Ratio" covenant and the "Fixed Charges Ratio" covenant.

The Company's obligations are guaranteed by certain of its U.S. subsidiaries. These obligations are also secured by a pledge of (i) 100% of the ownership interests in certain of the Company's U.S. subsidiaries and (ii) 65% of the voting capital stock of certain of the Company's foreign subsidiaries.

The Company and its subsidiaries are also subject to covenants that are contained in the 2006 Credit Agreement, including those restricting the incurrence of additional indebtedness (including guarantees of indebtedness), additional liens, mergers and consolidations, disposition or acquisition of property, the payment of dividends, transactions with affiliates and the making of certain investments, in each case subject to numerous conditions, exceptions and thresholds. The financial covenants are limited to maximum total debt-coverage ratios and minimum interest coverage ratios.

As of May 31, 2007, under the 2006 Credit Agreement, the Company had outstanding tranche A term loans of \$1.0 billion bearing an interest rate of 6.6%, tranche B term loans of \$1.5 billion bearing an interest rate of 6.9%, revolving loans of \$45.5 million bearing an interest rate of 6.5%, outstanding letters of credit of \$34.3 million, and \$820.2 million in revolving loans available to be drawn.

As of May 31, 2007, the Company had outstanding interest rate swap agreements which fixed LIBOR interest rates on \$1.2 billion of the Company's floating LIBOR rate debt at an average rate of 4.1% through fiscal 2010. For the three months ended May 31, 2007, and May 31, 2006, the Company reclassified \$1.8 million, net of tax effect of \$1.2 million, and \$0.8 million, net of tax effect of \$0.5 million, respectively, from AOCI (as defined in Note 14) to the interest expense, net line in the Company's Consolidated Statements of Income. This non-cash operating activity is included on the other, net line in the Company's Consolidated Statements of Cash Flows.

*Senior notes -*

On May 14, 2007, the Company issued \$700.0 million aggregate principal amount of 7 1/4% Senior Notes due May 2017 (the "May 2007 Senior Notes"). The net proceeds of the offering (\$694.5 million) were used to reduce a corresponding amount of borrowings under the revolving portion of the Company's 2006 Credit Agreement. Interest on the May 2007 Senior Notes is payable semiannually on May 15 and November 15 of each year, beginning November 15, 2007. The May 2007 Senior Notes are redeemable, in whole or in part, at the option of the Company at any time at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest to the redemption date, plus a make whole payment based on the present value of the future payments at the applicable Treasury Rate plus 50 basis points. The May 2007 Senior Notes are unsecured senior obligations and rank equally in right of payment to all existing and future unsecured senior indebtedness of the Company. Certain of the Company's significant U.S. operating subsidiaries guarantee the May 2007 Senior Notes, on an unsecured senior basis. As of May 31, 2007, the Company had outstanding \$700.0 million aggregate principal amount of May 2007 Senior Notes.

*Subsidiary credit facilities -*

The Company has additional credit arrangements totaling \$381.6 million as of May 31, 2007. These arrangements primarily support the financing needs of the Company's domestic and foreign subsidiary operations. Interest rates and other terms of these borrowings vary from country to country, depending on local market conditions. As of May 31, 2007, amounts outstanding under these arrangements were \$271.3 million.

9) INCOME TAXES:

As noted in Note 2, effective March 1, 2007, the Company adopted FIN No. 48. The Company did not record any cumulative effect adjustment to retained earnings as a result of the adoption of FIN No. 48. Upon adoption, the liability for income taxes associated with uncertain tax positions was \$108.1 million. Unrecognized tax benefits of \$62.8 million would affect the Company's effective tax rate if recognized. The Company reclassified \$83.9 million of income tax liabilities from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date. These non-current liabilities are recorded in the other liabilities line in the Company's Consolidated Balance Sheet. Due to ongoing tax examinations, it is expected that the amount of unrecognized tax benefit will change in the next twelve months; however, the Company does not expect the change to have a material impact on its results of operations or financial position.

In accordance with the Company's accounting policy, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. This policy did not change as a result of the adoption of FIN No. 48. As of the date of adoption, \$8.5 million, net of tax benefit, was included in the liability for uncertain tax positions for the possible payment of interest and penalties.

The federal income tax returns for the years ended February 28, 2005, and February 29, 2004, are under examination by the Internal Revenue Service. Various state and foreign income tax returns are also under examination by taxing authorities. The Company does not believe that the outcome of any examination will have a material impact on its consolidated financial statements.

The Company's effective tax rate for the three months ended May 31, 2007, and May 31, 2006, was 53.7% and 41.8%, respectively. The increase in the Company's effective tax rate for the three months ended May 31, 2007, is primarily due to the recognition of a nondeductible pretax loss of \$6.1 million in connection with the Company's contribution of its U.K. wholesale business to the Matthew Clark joint venture and an additional U.S. tax provision of \$7.2 million related to the future repatriation of unremitted earnings. In addition, the provision for income taxes for the three months ended May 31, 2007, included a net \$1.4 million benefit consisting of a \$4.0 million reduction in deferred income taxes as a result of a prior year legislative change in a certain foreign jurisdiction, partially offset by a \$2.6 million provision related to interest on certain prior years' uncertain tax positions.

10) RETIREMENT SAVINGS PLANS AND POSTRETIREMENT BENEFIT PLANS:

Net periodic benefit costs reported in the Consolidated Statements of Income for the Company's defined benefit pension plans include the following components:

	For the Three Months Ended May 31,	
	2007	2006
<i>(in millions)</i>		
Service cost	\$ 1.4	\$ 0.6
Interest cost	6.2	4.8
Expected return on plan assets	(7.6)	(5.4)
Amortization of prior service cost	0.1	-
Recognized net actuarial loss	2.2	0.5
Net periodic benefit cost	<u>\$ 2.3</u>	<u>\$ 0.5</u>

Net periodic benefit costs reported in the Consolidated Statements of Income for the Company's unfunded postretirement benefit plans include the following components:

	For the Three Months Ended May 31,	
	2007	2006
<i>(in millions)</i>		
Service cost	\$ 0.1	\$ -
Interest cost	0.1	0.1
Amortization of prior service cost	-	-
Recognized net actuarial loss	-	-
Net periodic benefit cost	<u>\$ 0.2</u>	<u>\$ 0.1</u>

Contributions of \$2.9 million have been made by the Company to fund its defined benefit pension plans for the three months ended May 31, 2007. The Company presently anticipates contributing an additional \$8.5 million to fund its defined benefit pension plans during the year ending February 29, 2008, resulting in total employer contributions of \$11.4 million for the year ending February 29, 2008.

11) STOCKHOLDERS' EQUITY:

In February 2007, the Company's Board of Directors authorized the repurchase of up to \$500.0 million of the Company's Class A Common Stock and Class B Common Stock. During the three months ended May 31, 2007, the Company repurchased 20,399,262 shares of Class A Common Stock pursuant to this authorization at an aggregate cost of \$500.0 million, or an average cost of \$24.51 per share, through a combination of open market transactions and an accelerated share repurchase ("ASR") transaction that was announced in May 2007. The Company used revolver borrowings under the 2006 Credit Agreement to pay the purchase price for these shares. The repurchased shares have become treasury shares. As of May 31, 2007, the Company has no obligation to make any additional payments or return any shares already received in connection with the ASR transaction. The Company may be entitled to receive additional shares pursuant to the ASR transaction at the end of a calculation period based on the application of a formula. The calculation period is scheduled to end in October 2007 but may be terminated earlier at the option of the counterparty to the ASR transaction.

12) EARNINGS PER COMMON SHARE:

Basic earnings per common share excludes the effect of common stock equivalents and is computed using the two-class computation method. Diluted earnings per common share for Class A Common Stock reflects the potential dilution that could result if securities to issue common stock were exercised or converted into common stock. Diluted earnings per common share for Class A Common Stock assumes the exercise of stock options using the treasury stock method and the conversion of Class B Convertible Common Stock and Preferred Stock using the more dilutive if-converted method. Diluted earnings per common share for Class B Convertible Common Stock is presented without assuming conversion into Class A Common Stock and is computed using the two-class computation method.

The computation of basic and diluted earnings per common share is as follows:

	For the Three Months Ended May 31,	
	2007	2006
<i>(in millions, except per share data)</i>		
Net income	\$ 29.8	\$ 85.5
Dividends on preferred stock	-	(2.5)
Income available to common stockholders	<u>\$ 29.8</u>	<u>\$ 83.0</u>
Weighted average common shares outstanding - basic:		
Class A Common Stock	205.636	199.571
Class B Common Stock	<u>23.824</u>	<u>23.853</u>
Total weighted average common shares outstanding - basic	229.460	223.424
Stock options	3.979	6.693
Preferred stock	-	9.983
Weighted average common shares outstanding - diluted	<u>233.439</u>	<u>240.100</u>
Earnings per common share - basic:		
Class A Common Stock	<u>\$ 0.13</u>	<u>\$ 0.38</u>
Class B Common Stock	<u>\$ 0.12</u>	<u>\$ 0.34</u>
Earnings per common share - diluted:		
Class A Common Stock	<u>\$ 0.13</u>	<u>\$ 0.36</u>
Class B Common Stock	<u>\$ 0.12</u>	<u>\$ 0.33</u>

Stock options to purchase 10.1 million and 8.7 million shares of Class A Common Stock at a weighted average price per share of \$25.91 and \$26.46 were outstanding during the three months ended May 31, 2007, and May 31, 2006, respectively, but were not included in the computation of the diluted earnings per common share because the stock options' exercise price was greater than the average market price of the Class A Common Stock for the period.

### 13) STOCK-BASED COMPENSATION:

The Company recorded \$9.4 million and \$3.6 million of stock-based compensation cost in its Consolidated Statements of Income for the three months ended May 31, 2007, and May 31, 2006, respectively. Of the \$9.4 million, \$4.2 million is related to the granting of 8.4 million nonqualified stock options under the Company's Long-Term Stock Incentive Plan to employees and nonemployee directors, and \$1.0 million is related to the accelerated vesting of 0.1 million nonqualified stock options granted during the year ended February 28, 2007, to employees of the Company's then existing 100% owned U.K. wholesale business. These options were accelerated prior to the Company's formation of the joint venture with Punch in April 2007. The remainder is related primarily to the amortization of employee and nonemployee directors stock options granted during the year ended February 28, 2007.



14) COMPREHENSIVE INCOME:

Comprehensive income (loss) consists of net income, foreign currency translation adjustments, net unrealized gains or losses on derivative instruments and pension/postretirement adjustments. The reconciliation of net income to comprehensive income is as follows:

	For the Three Months Ended May 31,	
	2007	2006
<i>(in millions)</i>		
Net income	\$ 29.8	\$ 85.5
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments, net of tax benefit (expense) of \$1.2 and (\$7.6), respectively	156.6	61.4
Cash flow hedges:		
Net derivative gains (losses), net of tax (expense) benefit of (\$0.3) and \$1.1, respectively	5.2	(5.6)
Reclassification adjustments, net of tax benefit of \$0.6 and \$1.5, respectively	(1.3)	(3.2)
Net cash flow hedges	3.9	(8.8)
Pension/postretirement adjustments, net of tax benefit of \$0.6 and \$2.7, respectively	(1.4)	(6.3)
Total comprehensive income	<u>\$ 188.9</u>	<u>\$ 131.8</u>

Accumulated other comprehensive income ("AOCI"), net of tax effects, includes the following components:

	Foreign Currency Translation Adjustments	Net Unrealized Gains on Derivatives	Pension/ Postretirement Adjustments	Accumulated Other Comprehensive Income
<i>(in millions)</i>				
Balance, February 28, 2007	\$ 446.8	\$ 13.3	\$ (111.0)	\$ 349.1
Current period change	156.6	3.9	(1.4)	159.1
Balance, May 31, 2007	<u>\$ 603.4</u>	<u>\$ 17.2</u>	<u>\$ (112.4)</u>	<u>\$ 508.2</u>

15) ACQUISITION-RELATED INTEGRATION COSTS:

For the three months ended May 31, 2007, the Company recorded \$2.0 million of acquisition-related integration costs associated primarily with the Vincer Plan (as defined in Note 16). The Company defines acquisition-related integration costs as nonrecurring costs incurred to integrate newly acquired businesses after a business combination which are incremental to those of the Company prior to the business combination. As such, acquisition-related integration costs include, but are not limited to, (i) employee-related costs such as salaries and stay bonuses paid to employees of the acquired business that will be terminated after their integration activities are completed, (ii) costs to relocate fixed assets and inventories, and (iii) facility costs and other one-time costs such as external services and consulting fees. For the three months ended May 31, 2007, acquisition-related integration costs included \$0.4 million of employee-related costs and \$1.6 million of facilities and other one-time costs. For the three months ended May 31, 2006, the Company recorded \$0.7 million of acquisition-related integration costs associated with the Robert Mondavi Plan (as defined in Note 16).

16) RESTRUCTURING AND RELATED CHARGES:

The Company has several restructuring plans within its Constellation Wines segment as follows:

*Robert Mondavi Plan -*

The Company's plan announced in January 2005 to restructure and integrate the operations of The Robert Mondavi Corporation (the "Robert Mondavi Plan"). The objective of the Robert Mondavi Plan is to achieve operational efficiencies and eliminate redundant costs resulting from the December 22, 2004, acquisition of The Robert Mondavi Corporation ("Robert Mondavi"). The Robert Mondavi Plan includes the elimination of certain employees, the consolidation of certain field sales and administrative offices, and the termination of various contracts. Although restructuring and related charges in connection with the Robert Mondavi Plan have been completed as of February 28, 2007, a balance remains for amounts not yet paid as of May 31, 2007. The remaining liability is expected to be paid through the year ending February 29, 2012.

*Fiscal 2006 Plan -*

The Company's worldwide wine reorganizations and the Company's plan to consolidate certain west coast production processes in the U.S., both announced during fiscal 2006, (collectively, the "Fiscal 2006 Plan"). The Fiscal 2006 Plan's principal features are to reorganize and simplify the infrastructure and reporting structure of the Company's global wine business and to consolidate certain west coast production processes. This Fiscal 2006 Plan is part of the Company's ongoing effort to enhance its administrative, operational and production efficiencies in light of its ongoing growth. The objective of the Fiscal 2006 Plan is to achieve greater efficiency in sales, administrative and operational activities and eliminate redundant costs. The Fiscal 2006 Plan includes the termination of employment of certain employees in various locations worldwide, the consolidation of certain worldwide wine selling and administrative functions, the consolidation of certain warehouse and production functions, the termination of various contracts, investment in new assets and the reconfiguration of certain existing assets. The Company expects the Fiscal 2006 Plan to be complete by February 28, 2009.

*Vincor Plan -*

The Company's plan announced in July 2006 to restructure and integrate the operations of Vincor (the "Vincor Plan"). The objective of the Vincor Plan is to achieve operational efficiencies and eliminate redundant costs resulting from the June 5, 2006, acquisition of Vincor, as well as to achieve greater efficiency in sales, marketing, administrative and operational activities. The Vincor Plan includes the elimination of certain employment redundancies, primarily in the United States, United Kingdom and Australia, and the termination of various contracts. The Company expects the Vincor Plan to be complete by February 28, 2009.

*Fiscal 2007 Wine Plan -*

The Company's plans announced in August 2006 to invest in new distribution and bottling facilities in the U.K. and to streamline certain Australian wine operations (collectively, the "Fiscal 2007 Wine Plan"). The U.K. portion of the plan includes new investments in property, plant and equipment and certain disposals of property, plant and equipment and is expected to increase wine bottling capacity and efficiency and reduce costs of transport, production and distribution. The U.K. portion of the plan also includes costs for employee terminations. The Australian portion of the plan includes the buy-out of certain grape supply and processing contracts and the sale of certain property, plant and equipment. The initiatives are part of the Company's ongoing efforts to maximize asset utilization, further reduce costs and improve long-term return on invested capital throughout its international operations. The Company expects the Australian portion of the plan to be complete by February 29, 2008, and the U.K. portion of the plan to be complete by February 28, 2010.

For the three months ended May 31, 2007, and May 31, 2006, the Company recorded \$0.4 million and \$2.3 million, respectively, of restructuring and related charges associated primarily with the Fiscal 2006 Plan.

Restructuring and related charges consisting of employee termination benefit costs, contract termination costs, and other associated costs are accounted for under either Statement of Financial Accounting Standards No. 112 ("SFAS No. 112"), "Employers' Accounting for Postemployment Benefits - an Amendment of FASB Statements No. 5 and 4," or Statement of Financial Accounting Standards No. 146 ("SFAS No. 146"), "Accounting for Costs Associated with Exit or Disposal Activities," as appropriate. Employee termination benefit costs are accounted for under SFAS No. 112, as the Company has had several restructuring programs which have provided employee termination benefits in the past. The Company includes employee severance, related payroll benefit costs such as costs to provide continuing health insurance, and outplacement services as employee termination benefit costs. Contract termination costs, and other associated costs including, but not limited to, facility consolidation and relocation costs are accounted for under SFAS No. 146. Per SFAS No. 146, contract termination costs are costs to terminate a contract that is not a capital lease, including costs to terminate the contract before the end of its term or costs that will continue to be incurred under the contract for its remaining term without economic benefit to the entity. The Company includes costs to terminate certain operating leases for buildings, computer and IT equipment, and costs to terminate contracts, including distributor contracts and contracts for long-term purchase commitments, as contract termination costs. Per SFAS No. 146, other associated costs include, but are not limited to, costs to consolidate or close facilities and relocate employees. The Company includes employee relocation costs and equipment relocation costs as other associated costs.

Details of each plan are presented in the following table:

	Fiscal 2007 Wine Plan	Vincor Plan	Fiscal 2006 Plan	Robert Mondavi Plan	Total
<i>(in millions)</i>					
Restructuring liability, February 28, 2007	\$ 2.8	\$ 21.2	\$ 3.5	\$ 5.4	\$ 32.9
Vincor acquisition	-	(1.4)	-	-	(1.4)
Restructuring charges:					
Employee termination benefit costs	-	(0.1)	0.1	-	-
Contract termination costs	-	-	0.2	-	0.2
Facility consolidation/relocation costs	-	0.1	0.1	-	0.2
Restructuring charges, May 31, 2007	-	-	0.4	-	0.4
Cash expenditures	(0.3)	(2.8)	(1.1)	(0.4)	(4.6)
Foreign currency translation adjustments	0.1	0.3	-	-	0.4
Restructuring liability, May 31, 2007	<u>\$ 2.6</u>	<u>\$ 17.3</u>	<u>\$ 2.8</u>	<u>\$ 5.0</u>	<u>\$ 27.7</u>

In addition, the following table presents other related costs incurred in connection with the Fiscal 2007 Wine Plan, Vincor Plan and the Fiscal 2006 Plan:

	For the Three Months Ended May 31, 2007			Total
	Fiscal 2007 Wine Plan	Vincor Plan	Fiscal 2006 Plan	
Accelerated depreciation/inventory write-down (cost of product sold)	\$ 1.1	\$ 0.1	\$ 1.0	\$ 2.2
Asset write-down/other costs (selling, general and administrative expenses)	\$ 0.3	\$ -	\$ 0.2	\$ 0.5

A summary of restructuring charges and other related costs incurred since inception for each plan, as well as total expected costs for each plan, are presented in the following table:

	Fiscal 2007 Wine Plan	Vincor Plan	Fiscal 2006 Plan
<i>(in millions)</i>			
<b>Costs incurred to date</b>			
Restructuring charges:			
Employee termination benefit costs	\$ 2.0	\$ 1.5	\$ 26.5
Contract termination costs	24.0	1.0	1.0
Facility consolidation/relocation costs	-	0.3	0.9
Total restructuring charges	26.0	2.8	28.4
Other related costs:			
Accelerated depreciation/inventory write-down	4.4	0.4	18.0
Asset write-down/other costs	13.2	-	3.7
Total other related costs	17.6	0.4	21.7
Total costs incurred to date	\$ 43.6	\$ 3.2	\$ 50.1
<b>Total expected costs</b>			
Restructuring charges:			
Employee termination benefit costs	\$ 2.0	\$ 1.5	\$ 27.2
Contract termination costs	24.8	1.1	8.7
Facility consolidation/relocation costs	0.2	0.3	1.6
Total restructuring charges	27.0	2.9	37.5
Other related costs:			
Accelerated depreciation/inventory write-down	12.8	0.6	19.5
Asset write-down/other costs	24.0	-	3.7
Total other related costs	36.8	0.6	23.2
Total expected costs	\$ 63.8	\$ 3.5	\$ 60.7

In connection with the Company's acquisition of Vincor and Robert Mondavi, the Company accrued \$38.4 million and \$50.5 million of liabilities for exit costs, respectively, as of the respective acquisition date. As of May 31, 2007, the balances of the Vincor and Robert Mondavi purchase accounting accruals were \$16.0 million and \$4.9 million, respectively. As of February 28, 2007, the balances of the Vincor and Robert Mondavi purchase accounting accruals were \$19.3 million and \$5.4 million, respectively.

17) CONDENSED CONSOLIDATING FINANCIAL INFORMATION:

The following information sets forth the condensed consolidating balance sheets as of May 31, 2007, and February 28, 2007, the condensed consolidating statements of income for the three months ended May 31, 2007, and May 31, 2006, and the condensed consolidating statements of cash flows for the three months ended May 31, 2007, and May 31, 2006, for the Company, the parent company, the combined subsidiaries of the Company which guarantee the Company's senior notes and senior subordinated notes ("Subsidiary Guarantors") and the combined subsidiaries of the Company which are not Subsidiary Guarantors (primarily foreign subsidiaries). The Subsidiary Guarantors are wholly-owned and the guarantees are full, unconditional, joint and several obligations of each of the Subsidiary Guarantors. Separate financial statements for the Subsidiary Guarantors of the Company are not presented because the Company has determined that such financial statements would not be material to investors. The accounting policies of the parent company, the Subsidiary Guarantors and the Subsidiary Nonguarantors are the same as those described for the Company in the Summary of Significant Accounting Policies in Note 1 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and include the recently adopted accounting pronouncements described in Note 2 herein. There are no restrictions on the ability of the Subsidiary Guarantors to transfer funds to the Company in the form of cash dividends, loans or advances.

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
<i>(in millions)</i>					
<u>Condensed Consolidating Balance Sheet at May 31, 2007</u>					
Current assets:					
Cash and cash investments	\$ 1.0	\$ 2.8	\$ 29.7	\$ -	\$ 33.5
Accounts receivable, net	232.9	80.3	450.7	-	763.9
Inventories	41.2	1,029.7	889.6	(5.2)	1,955.3
Prepaid expenses and other	8.2	143.0	47.1	(41.7)	156.6
Intercompany receivable (payable)	<u>1,035.0</u>	<u>(971.2)</u>	<u>(63.8)</u>	<u>-</u>	<u>-</u>
Total current assets	1,318.3	284.6	1,353.3	(46.9)	2,909.3
Property, plant and equipment, net	45.3	811.0	887.9	-	1,744.2
Investments in subsidiaries	6,640.4	88.2	153.0	(6,881.6)	-
Goodwill	-	1,843.9	1,505.0	-	3,348.9
Intangible assets, net	-	623.7	595.2	-	1,218.9
Other assets, net	<u>77.1</u>	<u>309.7</u>	<u>258.3</u>	<u>(40.2)</u>	<u>604.9</u>
Total assets	<u>\$ 8,081.1</u>	<u>\$ 3,961.1</u>	<u>\$ 4,752.7</u>	<u>\$ (6,968.7)</u>	<u>\$ 9,826.2</u>
Current liabilities:					
Notes payable to banks	\$ 45.5	\$ -	\$ 196.8	\$ -	\$ 242.3
Current maturities of long-term debt	348.5	10.6	3.7	-	362.8
Accounts payable	6.9	79.6	184.1	-	270.6
Accrued excise taxes	8.6	20.0	36.3	-	64.9
Other accrued expenses and liabilities	<u>128.1</u>	<u>148.4</u>	<u>333.4</u>	<u>(43.0)</u>	<u>566.9</u>
Total current liabilities	537.6	258.6	754.3	(43.0)	1,507.5
Long-term debt, less current maturities	4,327.2	25.9	28.7	-	4,381.8
Deferred income taxes	-	427.0	104.0	(40.2)	490.8
Other liabilities	88.0	68.7	161.1	-	317.8

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated	
<i>(in millions)</i>						
Stockholders' equity:						
Preferred stock		-	162.0	1,430.9	(1,592.9)	-
Class A and Class B common stock		2.5	100.7	184.3	(285.0)	2.5
Additional paid-in capital		1,292.4	1,280.9	1,223.9	(2,504.8)	1,292.4
Retained earnings		1,949.1	1,617.9	283.2	(1,901.1)	1,949.1
Accumulated other comprehensive income		508.2	19.4	582.3	(601.7)	508.2
Treasury stock		(623.9)	-	-	-	(623.9)
Total stockholders' equity		<u>3,128.3</u>	<u>3,180.9</u>	<u>3,704.6</u>	<u>(6,885.5)</u>	<u>3,128.3</u>
Total liabilities and stockholders' equity		<u>\$ 8,081.1</u>	<u>\$ 3,961.1</u>	<u>\$ 4,752.7</u>	<u>\$ (6,968.7)</u>	<u>\$ 9,826.2</u>

Condensed Consolidating Balance Sheet at February 28, 2007

Current assets:

Cash and cash investments	\$	2.4	\$	1.1	\$	30.0	\$	-	\$	33.5
Accounts receivable, net		342.7		57.5		480.8		-		881.0
Inventories		38.1		1,045.3		870.5		(5.8)		1,948.1
Prepaid expenses and other		2.0		105.3		62.1		(8.7)		160.7
Intercompany receivable (payable)		<u>1,080.3</u>		<u>(775.1)</u>		<u>(305.2)</u>		-		-
Total current assets		1,465.5		434.1		1,138.2		(14.5)		3,023.3
Property, plant and equipment, net		42.2		810.9		897.1		-		1,750.2
Investments in subsidiaries		6,119.9		115.6		-		(6,235.5)		-
Goodwill		-		1,509.1		1,574.8		-		3,083.9
Intangible assets, net		-		566.7		568.7		-		1,135.4
Other assets, net		<u>32.2</u>		<u>245.4</u>		<u>167.8</u>		-		<u>445.4</u>
Total assets		<u>\$ 7,659.8</u>		<u>\$ 3,681.8</u>		<u>\$ 4,346.6</u>		<u>\$ (6,250.0)</u>		<u>\$ 9,438.2</u>

Current liabilities:

Notes payable to banks	\$	30.0	\$	-	\$	123.3	\$	-	\$	153.3
Current maturities of long-term debt		299.2		10.2		7.9		-		317.3
Accounts payable		7.1		112.8		256.2		-		376.1
Accrued excise taxes		10.9		31.4		31.4		-		73.7
Other accrued expenses and liabilities		<u>242.4</u>		<u>105.2</u>		<u>333.5</u>		<u>(10.4)</u>		<u>670.7</u>
Total current liabilities		589.6		259.6		752.3		(10.4)		1,591.1
Long-term debt, less current maturities		3,672.7		18.5		23.7		-		3,714.9
Deferred income taxes		(24.1)		405.0		93.2		-		474.1
Other liabilities		4.1		36.7		199.8		-		240.6

Stockholders' equity:

Preferred stock		-		9.0		1,013.9		(1,022.9)		-
Class A and Class B common stock		2.5		100.7		190.3		(291.0)		2.5
Additional paid-in capital		1,271.1		1,280.9		1,296.9		(2,577.8)		1,271.1
Retained earnings		1,919.3		1,553.6		349.1		(1,902.7)		1,919.3
Accumulated other comprehensive income		349.1		17.8		427.4		(445.2)		349.1
Treasury stock		<u>(124.5)</u>		-		-		-		<u>(124.5)</u>
Total stockholders' equity		<u>3,417.5</u>		<u>2,962.0</u>		<u>3,277.6</u>		<u>(6,239.6)</u>		<u>3,417.5</u>
Total liabilities and stockholders' equity		<u>\$ 7,659.8</u>		<u>\$ 3,681.8</u>		<u>\$ 4,346.6</u>		<u>\$ (6,250.0)</u>		<u>\$ 9,438.2</u>

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
<i>(in millions)</i>					
<u>Condensed Consolidating Statement of Income for the Three Months Ended May 31, 2007</u>					
Sales	\$ 202.5	\$ 492.8	\$ 663.2	\$ (183.1)	\$ 1,175.4
Less - excise taxes	(28.9)	(92.4)	(152.9)	-	(274.2)
Net sales	173.6	400.4	510.3	(183.1)	901.2
Cost of product sold	(136.3)	(274.5)	(389.1)	166.9	(633.0)
Gross profit	37.3	125.9	121.2	(16.2)	268.2
Selling, general and administrative expenses	(58.0)	(71.6)	(84.3)	16.3	(197.6)
Restructuring and related charges	-	(0.3)	(0.1)	-	(0.4)
Acquisition-related integration costs	(0.1)	(0.7)	(1.2)	-	(2.0)
Operating (loss) income	(20.8)	53.3	35.6	0.1	68.2
Equity in earnings of equity method investees and subsidiaries	106.5	72.8	2.5	(106.0)	75.8
Gain on change in fair value of derivative instrument	-	-	-	-	-
Interest (expense) income, net	(55.6)	(19.1)	(5.0)	-	(79.7)
Income before income taxes	30.1	107.0	33.1	(105.9)	64.3
(Provision for) benefit from income taxes	(0.3)	(41.8)	7.9	(0.3)	(34.5)
Net income	29.8	65.2	41.0	(106.2)	29.8
Dividends on preferred stock	-	-	-	-	-
Income available to common stockholders	\$ 29.8	\$ 65.2	\$ 41.0	\$ (106.2)	\$ 29.8

Condensed Consolidating Statement of Income for the Three Months Ended May 31, 2006

Sales	\$ 319.7	\$ 764.6	\$ 569.7	\$ (223.8)	\$ 1,430.2
Less - excise taxes	(37.2)	(112.6)	(124.5)	-	(274.3)
Net sales	282.5	652.0	445.2	(223.8)	1,155.9
Cost of product sold	(219.0)	(475.9)	(367.2)	224.8	(837.3)
Gross profit	63.5	176.1	78.0	1.0	318.6
Selling, general and administrative expenses	(46.2)	(58.9)	(67.5)	-	(172.6)
Restructuring and related charges	-	(2.3)	-	-	(2.3)
Acquisition-related integration costs	-	(0.7)	-	-	(0.7)
Operating income	17.3	114.2	10.5	1.0	143.0
Equity in earnings of equity method investees and subsidiaries	82.7	1.4	0.6	(84.6)	0.1
Gain on change in fair value of derivative instrument	-	52.5	-	-	52.5
Interest expense, net	(21.5)	(25.0)	(2.2)	-	(48.7)
Income before income taxes	78.5	143.1	8.9	(83.6)	146.9
Benefit from (provision for) income taxes	7.0	(67.6)	(1.0)	0.2	(61.4)
Net income	85.5	75.5	7.9	(83.4)	85.5
Dividends on preferred stock	(2.5)	-	-	-	(2.5)
Income available to common stockholders	\$ 83.0	\$ 75.5	\$ 7.9	\$ (83.4)	\$ 83.0

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
<i>(in millions)</i>					
<u>Condensed Consolidating Statement of Cash Flows for the Three Months Ended May 31, 2007</u>					
Net cash (used in) provided by operating activities	\$	(24.8)	\$ 23.3	\$ (84.6)	- \$ (86.1)
Cash flows from investing activities:					
Purchase of business, net of cash acquired		(1.2)	(383.8)	(0.5)	(385.5)
Purchases of property, plant and equipment		(0.7)	(3.7)	(13.3)	- (17.7)
Payment of accrued earn-out amount		-	(2.9)	-	- (2.9)
Proceeds from formation of joint venture		-	-	185.6	185.6
Proceeds from sales of businesses		(4.0)	7.8	(0.8)	- 3.0
Proceeds from sales of assets		-	0.8	1.0	- 1.8
Other investing activities		-	-	-	-
Net cash (used in) provided by investing activities		<u>(5.9)</u>	<u>(381.8)</u>	<u>172.0</u>	<u>- (215.7)</u>
Cash flows from financing activities:					
Intercompany financings, net		(192.4)	363.5	(171.1)	- -
Proceeds from issuance of long-term debt		700.0	-	16.1	- 716.1
Net proceeds from notes payable		15.5	-	74.4	- 89.9
Exercise of employee stock options		7.0	-	-	- 7.0
Excess tax benefits from share-based payment awards		5.0	-	-	- 5.0
Purchases of treasury stock		(500.0)	-	-	- (500.0)
Principal payments of long-term debt		(0.5)	(3.3)	(5.2)	- (9.0)
Payment of financing costs of long-term debt		(5.3)	-	-	- (5.3)
Payment of preferred stock dividends		-	-	-	- -
Net cash provided by (used in) financing activities		<u>29.3</u>	<u>360.2</u>	<u>(85.8)</u>	<u>- 303.7</u>
Effect of exchange rate changes on cash and cash investments		<u>-</u>	<u>-</u>	<u>(1.9)</u>	<u>- (1.9)</u>
Net (decrease) increase in cash and cash investments		(1.4)	1.7	(0.3)	- -
Cash and cash investments, beginning of period		<u>2.4</u>	<u>1.1</u>	<u>30.0</u>	<u>- 33.5</u>
Cash and cash investments, end of period	<u>\$</u>	<u>1.0</u>	<u>\$ 2.8</u>	<u>\$ 29.7</u>	<u>\$ - \$ 33.5</u>



	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
<i>(in millions)</i>					
<u>Condensed Consolidating Statement of Cash Flows for the Three Months Ended May 31, 2006</u>					
Net cash (used in) provided by operating activities	\$	(20.8) \$	74.1 \$	(47.7) \$	- \$ 5.6
Cash flows from investing activities:					
Purchase of business, net of cash acquired		-	-	-	-
Purchases of property, plant and equipment		(0.5)	(13.1)	(31.5)	(45.1)
Payment of accrued earn-out amount		-	(1.1)	-	(1.1)
Proceeds from formation of joint venture		-	-	-	-
Proceeds from sales of businesses		-	-	28.0	28.0
Proceeds from sales of assets		-	-	0.7	0.7
Other investing activities		-	(2.1)	-	(2.1)
Net cash used in investing activities		(0.5)	(16.3)	(2.8)	(19.6)
Cash flows from financing activities:					
Intercompany financings, net		55.1	(55.6)	0.5	-
Proceeds from issuance of long-term debt		-	-	-	-
Net proceeds from notes payable		7.5	-	76.4	83.9
Exercise of employee stock options		8.6	-	-	8.6
Excess tax benefits from share-based payment awards		2.8	-	-	2.8
Purchases of treasury stock		-	-	-	-
Principal payments of long-term debt		(50.0)	(1.4)	(1.2)	(52.6)
Payment of financing costs of long-term debt		-	-	-	-
Payment of preferred stock dividends		(2.5)	-	-	(2.5)
Net cash provided by (used in) financing activities		21.5	(57.0)	75.7	40.2
Effect of exchange rate changes on cash and cash investments					
		-	-	0.4	0.4
Net increase in cash and cash investments					
		0.2	0.8	25.6	26.6
Cash and cash investments, beginning of period					
		0.9	1.2	8.8	10.9
Cash and cash investments, end of period					
	\$	1.1 \$	2.0 \$	34.4 \$	- \$ 37.5

18) BUSINESS SEGMENT INFORMATION:

As a result of the Company's investment in Crown Imports, the Company has changed its internal management financial reporting to consist of three business divisions, Constellation Wines, Constellation Spirits and Crown Imports. Prior to the investment in the joint venture, the Company's internal management financial reporting included the Constellation Beers business division. Consequently, the Company reports its operating results in five segments: Constellation Wines (branded wine, and wholesale and other), Constellation Spirits (distilled spirits), Constellation Beers (imported beer), Corporate Operations and Other and Crown Imports (imported beer). Segment results for Constellation Beers are for the period prior to January 2, 2007, and segment results for Crown Imports are for the period on and after January 2, 2007. Amounts included in the Corporate Operations and Other segment consist of general corporate administration and finance expenses. These amounts include costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal, public relations, global information technology and global strategic sourcing. Any costs incurred at the corporate office that are applicable to the segments are allocated to the appropriate segment. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in the chief operating decision maker's evaluation of the operating income performance of the other operating segments.

The new business segments reflect how the Company's operations are managed, how operating performance within the Company is evaluated by senior management and the structure of its internal financial reporting. The financial information for the three months ended May 31, 2006, has been restated to conform to the new segment presentation.

In addition, the Company excludes acquisition-related integration costs, restructuring and related charges and unusual items that affect comparability from its definition of operating income for segment purposes as these items are not reflective of normal continuing operations of the segments. The Company excludes these items as segment operating performance and segment management compensation is evaluated based upon a normalized segment operating income. As such, the performance measures for incentive compensation purposes for segment management do not include the impact of these items.

For the three months ended May 31, 2007, acquisition-related integration costs, restructuring and related charges and unusual costs consist of the loss on the contribution of the U.K. wholesale business of \$6.1 million, the flow through of inventory step-up associated primarily with the Company's acquisition of Vincor of \$2.9 million, accelerated depreciation associated with the Fiscal 2007 Wine Plan and Fiscal 2006 Plan of \$2.1 million, acquisition-related integration costs of \$2.0 million, and other related costs, restructuring and related charges and inventory write-offs associated with the Fiscal 2006 Plan, Fiscal 2007 Wine Plan and the Vincor Plan of \$0.5 million, \$0.4 million and \$0.1 million, respectively. For the three months ended May 31, 2006, acquisition-related integration costs, restructuring and related charges and unusual costs consist of the loss on sale of the Company's branded bottled water business of \$14.1 million; restructuring and related charges and other costs associated primarily with the Fiscal 2006 Plan of \$2.3 million and \$1.5 million, respectively; the flow through of adverse grape cost (as described below) associated with the acquisition of Robert Mondavi of \$1.5 million; accelerated depreciation costs in connection with the Fiscal 2006 Plan of \$1.1 million; and acquisition-related integration costs and the flow through of inventory step-up associated primarily with the acquisition of Robert Mondavi of \$0.7 million and \$0.6 million, respectively. Adverse grape cost represents the amount of historical inventory cost on Robert Mondavi's balance sheet that exceeds the Company's estimated ongoing grape cost and is primarily due to the purchase of grapes by Robert Mondavi prior to the acquisition date at above-market prices as required under the terms of their then existing grape purchase contracts.

The Company evaluates performance based on operating income of the respective business units. The accounting policies of the segments are the same as those described for the Company in the Summary of Significant Accounting Policies in Note 1 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and include the recently adopted accounting pronouncements described in Note 2 herein. Transactions between segments consist mainly of sales of products and are accounted for at cost plus an applicable margin.

Segment information is as follows:

	For the Three Months Ended May 31,	
	2007	2006
<i>(in millions)</i>		
<u>Constellation Wines:</u>		
Net sales:		
Branded wine	\$ 619.9	\$ 517.2
Wholesale and other	184.4	247.3
Net sales	\$ 804.3	\$ 764.5
Segment operating income	\$ 86.2	\$ 96.2
Equity in earnings of equity method investees	\$ 2.4	\$ 0.1
Long-lived tangible assets	\$ 1,603.6	\$ 1,334.7
Investment in equity method investees	\$ 237.1	\$ 152.5
Total assets	\$ 8,420.9	\$ 6,693.3
Capital expenditures	\$ 14.9	\$ 43.5
Depreciation and amortization	\$ 33.2	\$ 24.1
<u>Constellation Spirits:</u>		
Net sales	\$ 96.9	\$ 83.3
Segment operating income	\$ 15.8	\$ 17.7
Long-lived tangible assets	\$ 101.1	\$ 94.6
Total assets	\$ 1,100.4	\$ 669.0
Capital expenditures	\$ 2.5	\$ 1.4
Depreciation and amortization	\$ 3.2	\$ 2.4
<u>Constellation Beers:</u>		
Net sales	\$ -	\$ 308.1
Segment operating income	\$ -	\$ 65.1
Long-lived tangible assets	\$ -	\$ 1.0
Total assets	\$ -	\$ 234.1
Capital expenditures	\$ -	\$ -
Depreciation and amortization	\$ -	\$ 0.4
<u>Corporate Operations and Other:</u>		
Net sales	\$ -	\$ -
Segment operating loss	\$ (19.7)	\$ (14.2)
Long-lived tangible assets	\$ 39.5	\$ 12.4
Total assets	\$ 96.1	\$ 75.1
Capital expenditures	\$ 0.3	\$ 0.2
Depreciation and amortization	\$ 2.3	\$ 1.8

	For the Three Months Ended May 31,	
	2007	2006
<u>Crown Imports:</u>		
Net sales	\$ 658.1	\$ -
Segment operating income	\$ 146.3	\$ -
Long-lived tangible assets	\$ 2.2	\$ -
Total assets	\$ 477.1	\$ -
Capital expenditures	\$ 1.1	\$ -
Depreciation and amortization	\$ 0.1	\$ -
<u>Acquisition-Related Integration Costs, Restructuring and Related Charges and Unusual Costs:</u>		
Operating loss	\$ (14.1)	\$ (21.8)
<u>Consolidation and Eliminations:</u>		
Net sales	\$ (658.1)	\$ -
Operating income	\$ (146.3)	\$ -
Equity in earnings of Crown Imports	\$ 73.4	\$ -
Long-lived tangible assets	\$ (2.2)	\$ -
Investment in equity method investees	\$ 208.8	\$ -
Total assets	\$ (268.3)	\$ -
Capital expenditures	\$ (1.1)	\$ -
Depreciation and amortization	\$ (0.1)	\$ -
<u>Consolidated:</u>		
Net sales	\$ 901.2	\$ 1,155.9
Operating income	\$ 68.2	\$ 143.0
Equity in earnings of equity method investees	\$ 75.8	\$ 0.1
Long-lived tangible assets	\$ 1,744.2	\$ 1,442.7
Investment in equity method investees	\$ 445.9	\$ 152.5
Total assets	\$ 9,826.2	\$ 7,671.5
Capital expenditures	\$ 17.7	\$ 45.1
Depreciation and amortization	\$ 38.7	\$ 28.7

19) ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED:

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS No. 157"), "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing the asset or liability. The Company is required to adopt SFAS No. 157 for fiscal years and interim periods beginning March 1, 2008. The Company is currently assessing the financial impact of SFAS No. 157 on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (“SFAS No. 158”), “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R).” SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Company has adopted this provision of SFAS No. 158 and has provided the required disclosures as of February 28, 2007. SFAS No. 158 also requires companies to measure the funded status of a plan as of the date of the company’s fiscal year-end (with limited exceptions), which provision the Company is required to adopt as of February 28, 2009. The Company does not expect the adoption of the remaining provision of SFAS No. 158 to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (“SFAS No. 159”), “The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115.” SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 allows companies to choose to measure eligible items at fair value at specified election dates. The Company will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (i) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (ii) is irrevocable (unless a new election date occurs); and (iii) is applied only to entire instruments and not to portions of instruments. The Company is required to adopt SFAS No. 159 for fiscal years beginning after February 28, 2009. The Company does not expect the adoption of SFAS No. 159 to have a material impact on its consolidated financial statements.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Overview**

The Company is a leading international producer and marketer of beverage alcohol brands with a broad portfolio across the wine, spirits and imported beer categories. The Company continues to supply imported beer in the United States ("U.S.") through its investment in Crown Imports (as defined in "Equity Method Investments in Fiscal 2008 and Fiscal 2007" below). The Company has the largest wine business in the world and is the largest multi-category (wine, spirits and imported beer) supplier of beverage alcohol in the U.S.; a leading producer and exporter of wine from Australia and New Zealand; the largest producer and marketer of wine in Canada; and both a major supplier of beverage alcohol and, through its investment in Matthew Clark (see "Equity Method Investments in Fiscal 2008 and Fiscal 2007" below), a major independent drinks wholesaler in the United Kingdom ("U.K.").

Through January 1, 2007, the Company reported its operating results in three segments: Constellation Wines (branded wines, and U.K. wholesale and other), Constellation Beers and Spirits (imported beers and distilled spirits) and Corporate Operations and Other. As a result of the Company's investment in Crown Imports, the Company has changed its internal management financial reporting to consist of three business divisions, Constellation Wines, Constellation Spirits and Crown Imports. Prior to the investment in Crown Imports, the Company's internal management financial reporting included the Constellation Beers business division. Consequently, as of May 31, 2007, the Company reports its operating results in five segments: Constellation Wines (branded wine, and wholesale and other), Constellation Beers (imported beer), Constellation Spirits (distilled spirits), Corporate Operations and Other and Crown Imports (imported beer). Segment results for Constellation Beers are for the period prior to January 2, 2007, and segment results for Crown Imports are for the period on and after January 2, 2007. Amounts included in the Corporate Operations and Other segment consist of general corporate administration and finance expenses. These amounts include costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal, public relations, global information technology and global strategic sourcing. Any costs incurred at the corporate office that are applicable to the segments are allocated to the appropriate segment. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in the chief operating decision maker's evaluation of the operating income performance of the other operating segments. The new business segments reflect how the Company's operations are managed, how operating performance within the Company is evaluated by senior management and the structure of its internal financial reporting. The financial information for First Quarter 2007 (as defined below) has been restated to conform to the new segment presentation.

In addition, the Company excludes acquisition-related integration costs, restructuring and related charges and unusual items that affect comparability from its definition of operating income for segment purposes as these items are not reflective of normal continuing operations of the segments. The Company excludes these items as segment operating performance and segment management compensation is evaluated based upon a normalized segment operating income. As such, the performance measures for incentive compensation purposes for segment management do not include the impact of these items.

The Company's business strategy is to remain focused across the beverage alcohol industry by offering a broad range of products in each of the Company's three major categories: wine, spirits and, through Crown Imports, imported beer. The Company intends to keep its portfolio positioned for superior top-line growth while maximizing the profitability of its brands. In addition, the Company seeks to increase its relative importance to key customers in major markets by increasing its share of their overall purchasing, which is increasingly important in a consolidating industry. The Company's strategy of breadth across categories and geographies is designed to deliver long-term profitable growth. This strategy allows the Company more investment choices, provides flexibility to address changing market conditions and creates stronger routes-to-market.

Marketing, sales and distribution of the Company's products, particularly the Constellation Wines segment's products, are managed on a geographic basis in order to fully leverage leading market positions within each core market. Market dynamics and consumer trends vary significantly across the Company's five core markets (U.S., Canada, U.K., Australia and New Zealand) within the Company's three geographic regions (North America, Europe and Australia/New Zealand). Within North America, the Company offers a wide range of beverage alcohol products across the branded wine and spirits and, through Crown Imports, imported beer categories in the U.S. and is the largest producer and marketer of branded wines in Canada. In Europe, the Company leverages its position as the largest wine supplier in the U.K. In addition, the Company leverages its investment in Matthew Clark as a strategic route-to-market for its imported wine portfolio and as a key supplier of a full range of beverage alcohol products primarily to the on-premise business. Within Australia/New Zealand, where consumer trends favor domestic wine products, the Company leverages its position as one of the largest producers and marketers of wine in Australia and New Zealand.

The Company remains committed to its long-term financial model of growing sales (both organically and through acquisitions), expanding margins and increasing cash flow to achieve superior earnings per share growth and improve return on invested capital.

The environment for the Company's products is competitive in each of the Company's core markets, due, in part, to industry and retail consolidation. In particular, the U.K. and Australian markets have grown increasingly competitive, as further described below. Competition in the U.S. beer and spirits markets is normally intense, with domestic and imported beer producers increasing brand spending in an effort to gain market share.

The U.K. wine market is primarily an import market, with Australian wines comprising nearly one-quarter of all wine sales in the U.K. off-premise business. The Australian wine market is primarily a domestic market. The Company has leading share positions in the Australian wine category in both the U.K. and Australian markets.

These markets have become increasingly competitive making it difficult for the Company to recover certain cost increases, in particular, the duty increases in the U.K. which have been imposed annually for the past several years. In the U.K., significant consolidation at the retail level has resulted in a limited number of large retailers controlling a significant portion of the off-premise wine business. A surplus of Australian wine has made very low cost bulk wine available to retailers which has allowed certain of these large retailers to quickly create and build private label brands in the Australian wine category. While the Company experienced a slight volume growth in its U.K. base branded wine business in First Quarter 2008, with growth in the U.K. wine market moderating and significant growth in private label brands, the Company has experienced declines in both volume and pricing in recent prior quarters. In Australia, the domestic market remains competitive due to the surplus of Australian bulk wine, resulting in pricing pressures on the Company's products, in particular on the box wine category. These conditions are expected to persist in the near term. These factors have resulted in decreased gross profit and operating income for First Quarter 2008 associated with the Company's Australian portfolio sold in the U.K. and Australia.

Two years of record Australian grape harvests in calendar 2004 and 2005 have contributed to the surplus of Australian bulk wine. The calendar 2006 Australian grape harvest was slightly lower than the prior year's harvest. However, this has not had a significant impact on the current surplus. The calendar 2007 Australian grape harvest was significantly lower than the calendar 2006 Australian grape harvest as a result of an ongoing drought and late spring frosts in several regions. The effects of the ongoing drought conditions are also expected by many industry projections to impact the size of the calendar 2008 Australian grape harvest. Significant reductions in the calendar 2007 and 2008 Australian grape harvests could have a substantial impact on the current surplus and may result in higher pricing for Australian bulk wine. In the U.S., the smaller than average calendar 2006 California grape harvest which followed a larger than average calendar 2005 California grape harvest should result in overall supply remaining generally in balance with demand.

For the three months ended May 31, 2007 ("First Quarter 2008"), the Company's net sales decreased 22% over the three months ended May 31, 2006 ("First Quarter 2007"), primarily due to (i) the formation of Crown Imports on January 2, 2007, and Matthew Clark on April 17, 2007, and the accounting for these investments under the equity method of accounting, and (ii) the Company's Constellation Wines segment implementation of a program to reduce distributor wine inventory levels in the U.S. during the first half of fiscal 2008 (as discussed below), partially offset by net sales of products acquired in the acquisition of Vincor and Svedka Acquisition (see "Acquisitions in Fiscal 2008 and 2007" below) and a favorable foreign currency impact. Operating income decreased 52% over the comparable prior year period resulting primarily from (i) the decreased imported beer and U.K. wholesale sales discussed above, and (ii) the decreased Constellation Wines segment's net sales discussed above without a corresponding decrease in promotional, advertising, selling and general and administrative spend within the Constellation Wines segment. Net income decreased 65% over the comparable prior year period primarily due to the factors discussed above combined with increased interest expense and an increase in the provision for income taxes, partially offset by an increase in equity in earnings of equity method investees in connection primarily with Crown Imports.

The Company's Constellation Wines segment implemented a program to reduce distributor wine inventory levels in the U.S. during the year ending February 29, 2008 ("Fiscal 2008"), in response to the consolidation of distributors over the past few years and supply chain technology improvements. As distributors are looking to operate with lower levels of inventory while maintaining appropriate service levels to retailers, the Company is working closely with its distributors on supply-chain efficiencies, thereby lowering costs for both the Company and its distributors, and ultimately making the Company's brands more competitive in the marketplace. The Company began its reduction of distributor inventory levels First Quarter 2008 and expects to complete the program during the second quarter of fiscal 2008. This decision is expected to have a significant impact on the Company's Fiscal 2008 financial performance, including a reduction of net sales estimated to be in the range of \$160 million to \$190 million and a reduction in diluted earnings per share estimated to be in the range of \$0.15 to \$0.20.



The following discussion and analysis summarizes the significant factors affecting (i) consolidated results of operations of the Company for First Quarter 2008 compared to First Quarter 2007 and (ii) financial liquidity and capital resources for First Quarter 2008. This discussion and analysis also identifies certain acquisition-related integration costs, restructuring and related charges and unusual items expected to affect consolidated results of operations of the Company for Fiscal 2008. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein and in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2007 ("Fiscal 2007"). References to base branded wine net sales and base branded wine gross profit exclude the impact of branded wine acquired in the acquisition of Vincor.

## **Acquisitions in Fiscal 2008 and Fiscal 2007**

### *Acquisition of Svedka*

On March 19, 2007, the Company acquired the SVEDKA Vodka brand ("Svedka") in connection with the acquisition of Spirits Marque One LLC and related business (the "Svedka Acquisition"). Svedka is a premium Swedish vodka and is the fastest growing major imported premium vodka in the U.S. Svedka is the fifth largest imported vodka in the U.S. The acquisition of Svedka supports the Company's strategy of expanding the Company's premium spirits business. The acquisition provides a foundation from which the Company looks to leverage its existing and future premium spirits portfolio for growth. In addition, Svedka complements the Company's existing portfolio of super-premium and value vodka brands by adding a premium vodka brand that has experienced rapid growth.

Total consideration paid in cash for the Svedka Acquisition was \$385.4 million. In addition, the Company expects to incur direct acquisition costs of approximately \$1.3 million. The purchase price is subject to final closing adjustments which the Company does not expect to be material. The purchase price was financed with revolver borrowings under the Company's 2006 Credit Agreement.

The results of operations of the Svedka business are reported in the Constellation Spirits segment and have been included in the consolidated results of operations of the Company from the date of acquisition. The Svedka Acquisition will have a significant impact on the Company's interest expense associated with the additional revolver borrowings.

### *Acquisition of Vincor*

On June 5, 2006, the Company acquired all of the issued and outstanding common shares of Vincor International Inc. ("Vincor"), Canada's premier wine company. Vincor is Canada's largest producer and marketer of wine. At the time of the acquisition, Vincor was the world's eighth largest producer and distributor of wine and related products by revenue and was also one of the largest wine importers, marketers and distributors in the U.K. Through this transaction, the Company acquired various additional winery and vineyard interests used in the production of premium, super-premium and fine wines from Canada, California, Washington State, Western Australia and New Zealand. In addition, as a result of the acquisition, the Company sources, markets and sells premium wines from South Africa. Well-known premium brands acquired in the acquisition of Vincor include Inniskillin, Jackson-Triggs, Sawmill Creek, Sumac Ridge, R.H. Phillips, Toasted Head, Hogue, Kim Crawford and Kumala.

The acquisition of Vincor supports the Company's strategy of strengthening the breadth of its portfolio across price segments and geographic regions to capitalize on the overall growth in the wine industry. In addition to complementing the Company's current operations in the U.S., U.K., Australia and New Zealand, the acquisition of Vincor increases the Company's global presence by adding Canada as another core market and provides the Company with the ability to capitalize on broader geographic distribution in strategic international markets. In addition, the acquisition of Vincor makes the Company the largest wine company in Canada and strengthens the Company's position as the largest wine company in the world and the largest premium wine company in the U.S.

Total consideration paid in cash to the Vincor shareholders was \$1,115.8 million. In addition, the Company incurred direct acquisition costs of \$11.4 million. At closing, the Company also assumed outstanding indebtedness of Vincor, net of cash acquired, of \$320.2 million, resulting in a total transaction value of \$1,447.4 million. The purchase price was financed with borrowings under the Company's June 2006 Credit Agreement (as defined below). The results of operations of the Vincor business are reported in the Constellation Wines segment and are included in the consolidated results of operations of the Company from the date of acquisition.

#### **Equity Method Investments in Fiscal 2008 and Fiscal 2007**

##### ***Investment in Matthew Clark***

On April 17, 2007, the Company and Punch Taverns plc ("Punch") commenced operations of a joint venture for the U.K. wholesale business ("Matthew Clark"). The U.K. wholesale business was formerly owned entirely by the Company. Under the terms of the arrangement, the Company and Punch, directly or indirectly, each have a 50% voting and economic interest in Matthew Clark. The joint venture will reinforce Matthew Clark's position as the U.K.'s largest independent premier drinks wholesaler serving the on-trade drinks industry. The Company received \$185.6 million of cash proceeds from the formation of the joint venture.

Upon formation of the joint venture, the Company discontinued consolidation of the U.K. wholesale business and accounts for the investment in Matthew Clark under the equity method. Accordingly, the results of operations of Matthew Clark are included in the equity in earnings of equity method investees line in the Company's Consolidated Statements of Income from the date of investment.

##### ***Investment in Crown Imports***

On July 17, 2006, Barton Beers, Ltd. ("Barton"), an indirect wholly-owned subsidiary of the Company, entered into an Agreement to Establish Joint Venture (the "Joint Venture Agreement") with Diblo, S.A. de C.V. ("Diblo"), an entity owned 76.75% by Grupo Modelo, S.A. de C.V. ("Modelo") and 23.25% by Anheuser-Busch, Inc., pursuant to which Modelo's Mexican beer portfolio (the "Modelo Brands") will be exclusively imported, marketed and sold in the 50 states of the U.S., the District of Columbia and Guam. In addition, the owners of the Tsingtao and St. Pauli Girl brands transferred exclusive importing, marketing and selling rights with respect to these brands in the U.S. to the joint venture. On January 2, 2007, the parties completed the closing (the "Closing") of the transactions contemplated in the Joint Venture Agreement, as amended at Closing.

Pursuant to the Joint Venture Agreement, Barton established Crown Imports LLC, a wholly-owned subsidiary formed as a Delaware limited liability company. On January 2, 2007, pursuant to a Barton Contribution Agreement, dated July 17, 2006, among Barton, Diblo and Crown Imports LLC (the "Barton Contribution Agreement"), Barton transferred to Crown Imports LLC substantially all of its assets relating to importing, marketing and selling beer under the Corona Extra, Corona Light, Coronita, Modelo Especial, Negra Modelo, Pacifico, St. Pauli Girl and Tsingtao brands and the liabilities associated therewith (the "Barton Contributed Net Assets"). At the Closing, GModelo Corporation, a Delaware corporation (the "Diblo Subsidiary"), a subsidiary of Diblo joined Barton as a member of Crown Imports LLC, and, in exchange for a 50% membership interest in Crown Imports LLC, contributed cash in an amount equal to the Barton Contributed Net Assets, subject to specified adjustments. This imported beers joint venture is referred to hereinafter as "Crown Imports".

Also on January 2, 2007, Crown Imports and Extrade II S.A. de C.V. ("Extrade II"), an affiliate of Modelo, entered into an Importer Agreement (the "Importer Agreement"), pursuant to which Extrade II granted to Crown Imports the exclusive right to import, market and sell the Modelo Brands in the territories mentioned above, and Crown Imports and Marcas Modelo, S.A. de C.V. ("Marcas Modelo"), entered into a Sub-license Agreement (the "Sub-license Agreement"), pursuant to which Marcas Modelo granted Crown Imports an exclusive sub-license to use certain trademarks related to the Modelo Brands within this territory.

As a result of these transactions, Barton and Diblo each have, directly or indirectly, equal interests in Crown Imports and each of Barton and Diblo have appointed an equal number of directors to the Board of Directors of Crown Imports.

The importer agreement that previously gave Barton the exclusive right to import, market and sell the Modelo Brands primarily west of the Mississippi River was superseded by the transactions contemplated by the Joint Venture Agreement, as amended. The contribution by Diblo Subsidiary in exchange for a 50% membership interest in Crown does not constitute the acquisition of a business by the Company.

The joint venture and the related importation arrangements provide that, subject to the terms and conditions of those agreements, the joint venture and the related importation arrangements will continue for an initial term of 10 years, and renew in 10-year periods unless Diblo Subsidiary gives notice prior to the end of year seven of any term. Upon consummation of the transactions, the Company discontinued consolidation of the imported beer business and accounts for the investment in Crown Imports under the equity method. Accordingly, the results of operations of Crown Imports are included in the equity in earnings of equity method investees line in the Company's Consolidated Statements of Income from the date of investment.

## Results of Operations

### First Quarter 2008 Compared to First Quarter 2007

#### Net Sales

The following table sets forth the net sales (in millions of dollars) by operating segment of the Company for First Quarter 2008 and First Quarter 2007.

	First Quarter 2008 Compared to First Quarter 2007		
	Net Sales		% Increase / (Decrease)
	2008	2007	
Constellation Wines:			
Branded wine	\$ 619.9	\$ 517.2	20 %
Wholesale and other	<u>184.4</u>	<u>247.3</u>	(25)%
Constellation Wines net sales	804.3	764.5	5 %
Constellation Spirits net sales	96.9	83.3	16 %
Constellation Beers net sales	-	308.1	(100)%
Crown Imports net sales	658.1	-	N/A
Consolidations and eliminations	<u>(658.1)</u>	<u>-</u>	N/A
Consolidated Net Sales	<u>\$ 901.2</u>	<u>\$ 1,155.9</u>	(22)%

Net sales for First Quarter 2008 decreased to \$901.2 million from \$1,155.9 million for First Quarter 2007, a decrease of \$254.7 million, or (22%). This decrease resulted primarily from a decrease in net sales of \$308.1 million and \$92.6 million for the Crown Imports and Matthew Clark investments, respectively, which are accounted for under the equity method of accounting, and the Company's implementation of a program to reduce distributor wine inventory levels in the U.S., partially offset by net sales of products acquired in the acquisition of Vincor and Svedka Acquisition of \$133.7 million and \$11.6 million, respectively, and a favorable foreign currency impact of \$32.7 million.

#### Constellation Wines

Net sales for Constellation Wines increased to \$804.3 million for First Quarter 2008 from \$764.5 million in First Quarter 2007, an increase of \$39.8 million, or 5%. Branded wine net sales increased \$102.7 million primarily due to \$126.3 million of net sales of branded wine acquired in the acquisition of Vincor and a favorable foreign currency impact of \$17.5 million, partially offset by the lower U.S. base branded wine net sales resulting primarily from the Company's implementation of a program to reduce distributor wine inventory levels in the U.S. Wholesale and other net sales decreased \$62.9 million primarily due to a decrease of \$92.6 million resulting from the accounting for the Matthew Clark investment under the equity method of accounting, partially offset by a favorable foreign currency impact of \$15.3 million.

#### Constellation Spirits

Net sales for Constellation Spirits increased to \$96.9 million for First Quarter 2008 from \$83.3 million for First Quarter 2007, an increase of \$13.6 million, or 16%. This increase resulted primarily from \$11.6 million of net sales of branded spirits acquired in the Svedka Acquisition.

#### Constellation Beers

Net sales for Constellation Beers decreased to \$308.1 million, or (100%), from First Quarter 2007 as the Crown Imports investment is accounted for under the equity method of accounting.

## ***Gross Profit***

The Company's gross profit decreased to \$268.2 million for First Quarter 2008 from \$318.6 million for First Quarter 2007, a decrease of \$50.4 million, or (16%). The Constellation Wines segment's gross profit increased \$32.5 million primarily due to increased gross profit of \$53.2 million due to the acquisition of Vincor, partially offset by lower U.S. base branded wine gross profit of \$21.9 million resulting from the lower U.S. branded wine net sales primarily as a result of the Company's implementation of a program to reduce distributor inventory levels. The Constellation Spirits segment's gross profit increased slightly primarily due to increased gross profit of \$6.2 million due to the Svedka Acquisition, partially offset by increased material costs for spirits. The Constellation Beers segment's gross profit was down \$85.3 million due to the formation of Crown Imports on January 2, 2007, and the accounting for this investment under the equity method of accounting. In addition, unusual items, which consist of certain costs that are excluded by management in their evaluation of the results of each operating segment, were higher by \$1.9 million in First Quarter 2008 versus First Quarter 2007. This increase resulted primarily from increased flow through of inventory step-up of \$2.3 million associated primarily with the acquisition of Vincor. Gross profit as a percent of net sales increased to 29.8% for First Quarter 2008 from 27.6% for First Quarter 2007 primarily due to the benefit of reporting the lower margin U.K. wholesale business under the equity method of accounting in the second half of the quarter combined with the sales of higher-margin wine and spirits brands acquired in the acquisition of Vincor and Svedka Acquisition, respectively, partially offset by lower margins in the U.S. branded wine business primarily due to the distributor inventory reduction program.

## ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased to \$197.6 million for First Quarter 2008 from \$172.6 million for First Quarter 2007, an increase of \$25.0 million, or 14%. This increase is due primarily to an increase of \$42.5 million in the Constellation Wines segment, an increase of \$6.2 million in the Constellation Spirits segment, and an increase of \$5.5 million in Corporate Operations and Other, partially offset by a \$20.2 million decrease in selling, general and administrative expenses within the Constellation Beers segment as the Crown Imports investment is accounted for under the equity method of accounting, and a reduction in unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment of \$9.0 million. The increase in the Constellation Wines segment's selling, general and administrative expenses is primarily due to increased general and administrative expenses of \$15.4 million, selling expenses of \$14.3 million, and advertising expenses of \$12.8 million resulting primarily from the acquisition of Vincor and the recognition of an additional \$3.1 million of stock-based compensation expense. The increase in the Constellation Spirits segment's selling, general and administrative expenses is primarily due to an increase in advertising expenses of \$2.8 million and an increase in selling expenses of \$2.4 million resulting primarily from the Svedka Acquisition. The Corporate Operations and Other segment's selling, general and administrative expenses were up \$5.5 million, primarily due to the recognition of additional stock-based compensation expense in First Quarter 2008 of \$2.4 million and increased general and administrative expenses to support the Company's growth. The decrease in unusual costs was primarily due to the recognition of a \$14.1 million loss in First Quarter 2007 on the sale of the Company's branded bottled water business partially offset by the recognition of a \$6.1 million loss in First Quarter 2008 in connection with the contribution of the Company's U.K. wholesale business to the Matthew Clark joint venture.

Selling, general and administrative expenses as a percent of net sales increased to 21.9% for First Quarter 2008 as compared to 14.9% for First Quarter 2007 primarily due to (i) accounting for the imported beer business under the equity method of accounting and (ii) the lower net sales associated with the reduction in the distributor wine inventory levels without a corresponding decrease in selling, general and administrative expenses within the U.S. branded wine business.

### ***Acquisition-Related Integration Costs***

Acquisition-related integration costs increased to \$2.0 million for First Quarter 2008 from \$0.7 million for First Quarter 2007. Acquisition-related integration costs for First Quarter 2008 consisted of costs recorded primarily in connection with the Company's plan to restructure and integrate the operations of Vincor (the "Vincor Plan"). These costs included \$0.4 million of employee-related costs and \$1.6 million of facilities and other one-time costs. Acquisition-related integration costs for First Quarter 2007 consisted of costs recorded in connection with the Company's plan to restructure and integrate the operations of The Robert Mondavi Corporation (the "Robert Mondavi Plan").

For Fiscal 2008, the Company expects to incur total acquisition-related integration costs of \$7.4 million primarily in connection with the Vincor Plan.

### ***Restructuring and Related Charges***

The Company recorded \$0.4 million of restructuring and related charges for First Quarter 2008 associated primarily with the Company's worldwide wine reorganizations announced during Fiscal 2006 and the Company's program to consolidate certain west coast production processes in the U.S. (collectively, the "Fiscal 2006 Plan"). Restructuring and related charges included \$0.2 million of contract termination costs and \$0.2 million of facility consolidation/relocation costs. In addition, in connection with the Company's plan to invest in new distribution and bottling facilities in the U.K. and to streamline certain Australian wine operations (collectively, the "Fiscal 2007 Wine Plan"), the Fiscal 2006 Plan and the Vincor Plan, the Company recorded (i) \$2.1 million of accelerated depreciation costs and \$0.1 million of inventory write-downs and (ii) \$0.5 million of other related costs which were recorded in the cost of product sold line and selling, general and administrative expenses line, respectively, within the Company's Consolidated Statements of Income. The Company recorded \$2.3 million of restructuring and related charges for First Quarter 2007 associated primarily with the Fiscal 2006 Plan.

For Fiscal 2008, the Company expects to incur total restructuring and related charges of \$3.4 million associated with the Fiscal 2006 Plan, Fiscal 2007 Wine Plan and Vincor Plan. In addition, with respect to these plans, the Company expects to incur total accelerated depreciation costs, other charges and inventory write-downs for Fiscal 2008 of \$6.9 million, \$2.4 million and \$0.3 million, respectively.

## Operating Income

The following table sets forth the operating income (loss) (in millions of dollars) by operating segment of the Company for First Quarter 2008 and First Quarter 2007.

	First Quarter 2008 Compared to First Quarter 2007		
	Operating Income (Loss)		% Increase (Decrease)
	2008	2007	
Constellation Wines	\$ 86.2	\$ 96.2	(10)%
Constellation Spirits	15.8	17.7	(11)%
Constellation Beers	-	65.1	(100)%
Corporate Operations and Other	(19.7)	(14.2)	39 %
Crown Imports	146.3	-	N/A
Consolidations and eliminations	(146.3)	-	N/A
Total Reportable Segments	82.3	164.8	(50)%
Acquisition-Related Integration Costs, Restructuring and Related Charges and Unusual Costs	(14.1)	(21.8)	(35)%
Consolidated Operating Income	<u>\$ 68.2</u>	<u>\$ 143.0</u>	(52)%

As a result of the factors discussed above, consolidated operating income decreased to \$68.2 million for First Quarter 2008 from \$143.0 million for First Quarter 2007, a decrease of \$74.8 million, or (52%). Acquisition-related integration costs, restructuring and related charges and unusual costs of \$14.1 million for First Quarter 2008 consist of certain costs that are excluded by management in their evaluation of the results of each operating segment. These costs represent the loss on the contribution of the U.K. wholesale business of \$6.1 million, the flow through of inventory step-up associated primarily with the Company's acquisition of Vincor of \$2.9 million, accelerated depreciation associated with the Fiscal 2007 Wine Plan and Fiscal 2006 Plan of \$2.1 million, acquisition-related integration costs of \$2.0 million, and other related costs, restructuring and related charges and inventory write-offs associated with the Fiscal 2006 Plan, Fiscal 2007 Wine Plan and the Vincor Plan of \$0.5 million, \$0.4 million and \$0.1 million, respectively. Acquisition-related integration costs, restructuring and related charges and unusual costs of \$21.8 million for First Quarter 2007 represent the loss on sale of the Company's branded bottled water business of \$14.1 million; restructuring and related charges and other costs associated primarily with the Fiscal 2006 Plan of \$2.3 million and \$1.5 million, respectively; the flow through of adverse grape cost associated with the acquisition of The Robert Mondavi Corporation ("Robert Mondavi") of \$1.5 million; accelerated depreciation costs in connection with the Fiscal 2006 Plan of \$1.1 million; and acquisition-related integration costs and the flow through of inventory step-up associated primarily with the acquisition of Robert Mondavi of \$0.7 million and \$0.6 million, respectively.

## Equity in Earnings of Equity Method Investees

The Company's equity in earnings of equity method investees increased to \$75.8 million in First Quarter 2008 from \$0.1 million in First Quarter 2007. This increase is primarily due to the January 2, 2007, consummation of the Crown Imports beer joint venture and the reporting of the results of operations of that joint venture since that date under the equity method of accounting of \$73.4 million.

### ***Gain on Change in Fair Value of Derivative Instrument***

In April 2006, the Company entered into a foreign currency forward contract in connection with the acquisition of Vincor to fix the U.S. dollar cost of the acquisition and the payment of certain outstanding indebtedness. As of May 31, 2006, this derivative instrument had a fair value of \$52.5 million. Under SFAS No. 133, a transaction that involves a business combination is not eligible for hedge accounting treatment. As such, the derivative was recorded on the balance sheet at its fair value with the change in the fair value recognized separately on the Company's Consolidated Statements of Income.

In the second quarter of fiscal 2007, the Company recorded an additional gain of \$2.6 million related to the settlement of the foreign currency forward contract entered into in conjunction with the acquisition of Vincor.

### ***Interest Expense, Net***

Interest expense, net of interest income of \$0.4 million and \$0.9 million, for First Quarter 2008 and First Quarter 2007, respectively, increased to \$79.7 million for First Quarter 2008 from \$48.7 million for First Quarter 2007, an increase of \$31.0 million, or 64%. The increase resulted primarily from higher average borrowings in First Quarter 2008 as a result of the funding of the acquisition of Vincor and the Svedka Acquisition, and the \$500.0 million of share repurchases (see discussion below).

### ***Provision for Income Taxes***

The Company's effective tax rate increased to 53.7% for First Quarter 2008 from 41.8% for First Quarter 2007, an increase of 11.9 percentage points. The increase in the Company's effective tax rate for First Quarter 2008 is primarily due to the recognition of a nondeductible pretax loss of \$6.1 million in connection with the Company's contribution of its U.K. wholesale business to the Matthew Clark joint venture and an additional U.S. tax provision of \$7.2 million related to the future repatriation of unremitted earnings. In addition, the provision for income taxes for First Quarter 2008 included a net \$1.4 million benefit consisting of a \$4.0 million reduction in deferred income taxes as a result of a prior year legislative change in a certain foreign jurisdiction, partially offset by a \$2.6 million provision related to interest on certain prior years' uncertain tax positions.

### ***Net Income***

As a result of the above factors, net income decreased to \$29.8 million for First Quarter 2008 from \$85.5 million for First Quarter 2007, a decrease of \$55.7 million, or (65%).



## **Financial Liquidity and Capital Resources**

### **General**

The Company's principal use of cash in its operating activities is for purchasing and carrying inventories and carrying seasonal accounts receivable. The Company's primary source of liquidity has historically been cash flow from operations, except during annual grape harvests when the Company has relied on short-term borrowings. In the United States, the annual grape crush normally begins in August and runs through October. In Australia, the annual grape crush normally begins in February and runs through May. The Company generally begins taking delivery of grapes at the beginning of the crush season with payments for such grapes beginning to come due one month later. The Company's short-term borrowings to support such purchases generally reach their highest levels one to two months after the crush season has ended. Historically, the Company has used cash flow from operating activities to repay its short-term borrowings and fund capital expenditures. The Company will continue to use its short-term borrowings to support its working capital requirements. The Company believes that cash provided by operating activities and its financing activities, primarily short-term borrowings, will provide adequate resources to satisfy its working capital, scheduled principal and interest payments on debt, and anticipated capital expenditure requirements for both its short-term and long-term capital needs.

### **First Quarter 2008 Cash Flows**

#### ***Operating Activities***

Net cash used in operating activities for First Quarter 2008 was \$86.1 million, which resulted from \$29.8 million of net income, plus \$12.2 million of net non-cash items charged to the Consolidated Statement of Income, less \$110.4 million representing the net change in the Company's operating assets and liabilities, less \$17.7 million of other items.

The net non-cash items consisted primarily of depreciation of property, plant and equipment and equity in earnings of equity method investees, net of distributed earnings. The net change in operating assets and liabilities resulted primarily from increases in accounts receivable and inventories of \$38.9 million and \$27.6 million, respectively, and a decrease in accounts payable of \$23.1 million. The increase in accounts receivable is primarily due to seasonality as January and February are typically the Company's lowest selling months. The increase in inventories is primarily attributable to increases in Australian and New Zealand inventory levels resulting from the 2007 grape crush. The decrease in accounts payable was primarily seen in North America due to seasonality as the Company's North American accounts payable are typically at their lowest points during the summer months prior to the fall harvest. The other items consist primarily of \$13.1 million of non-cash gains on foreign currency denominated intercompany balances, which are offset in the income statement by losses on derivative instruments designed to economically hedge such foreign currency risks.

#### ***Investing Activities***

Net cash used in investing activities for First Quarter 2008 was \$215.7 million, which resulted primarily from the use of \$385.5 million for the Svedka Acquisition, partially offset by \$185.6 million of net proceeds from the formation of the U.K. wholesale joint venture.

#### ***Financing Activities***

Net cash provided by financing activities for First Quarter 2008 was \$303.7 million resulting primarily from proceeds from issuance of long-term debt of \$716.1 million and net proceeds from notes payable of \$89.9 million, partially offset by purchases of treasury stock of \$500.0 million.

## Share Repurchases

During February 2006, the Company's Board of Directors replenished a June 1998 Board of Directors authorization to repurchase up to \$100.0 million of the Company's Class A Common Stock and Class B Common Stock. During the second and third quarters of fiscal 2007, the Company repurchased 3,894,978 shares of Class A Common Stock at an aggregate cost of \$100.0 million, or at an average cost of \$25.67 per share. The Company used revolver borrowings under the June 2006 Credit Agreement to pay the purchase price for these shares. During February 2007, the Company's Board of Directors authorized the repurchase of up to \$500.0 million of the Company's Class A Common Stock and Class B Common Stock. During First Quarter 2008, the Company repurchased 20,399,262 shares of Class A Common Stock pursuant to this authorization at an aggregate cost of \$500.0 million, or an average cost of \$24.51 per share, through a combination of open market transactions and an accelerated share repurchase ("ASR") transaction that was announced in May 2007. The Company used revolver borrowings under the 2006 Credit Agreement to pay the purchase price for these shares. The repurchased shares have become treasury shares. As of May 31, 2007, the Company has no obligation to make any additional payments or return any shares already received in connection with the ASR transaction. The Company may be entitled to receive additional shares pursuant to the ASR transaction at the end of a calculation period based on the application of a formula. The calculation period is scheduled to end in October 2007 but may be terminated earlier at the option of the counterparty to the ASR transaction.

## Debt

Total debt outstanding as of May 31, 2007, amounted to \$4,986.9 million, an increase of \$801.4 million from February 28, 2007. The ratio of total debt to total capitalization increased to 61.5% as of May 31, 2007, from 55.1% as of February 28, 2007.

### *Senior Credit Facility*

#### 2006 Credit Agreement

In connection with the acquisition of Vincor, on June 5, 2006, the Company and certain of its U.S. subsidiaries, JPMorgan Chase Bank, N.A. as a lender and administrative agent, and certain other agents, lenders, and financial institutions entered into a new credit agreement (the "June 2006 Credit Agreement"). On February 23, 2007, the June 2006 Credit Agreement was amended (the "February Amendment"). The June 2006 Credit Agreement together with the February Amendment is referred to as the "2006 Credit Agreement". The 2006 Credit Agreement provides for aggregate credit facilities of \$3.9 billion, consisting of a \$1.2 billion tranche A term loan facility due in June 2011, a \$1.8 billion tranche B term loan facility due in June 2013, and a \$900 million revolving credit facility (including a sub-facility for letters of credit of up to \$200 million) which terminates in June 2011. Proceeds of the June 2006 Credit Agreement were used to pay off the Company's obligations under its prior senior credit facility, to fund the acquisition of Vincor and to repay certain indebtedness of Vincor. The Company uses its revolving credit facility under the 2006 Credit Agreement for general corporate purposes, including working capital, on an as needed basis.

As of May 31, 2007, the required principal repayments of the tranche A term loan and the tranche B term loan for the remaining nine months of fiscal 2008 and for each of the five succeeding fiscal years are as follows:

<i>(in millions)</i>	<u>Tranche A Term Loan</u>	<u>Tranche B Term Loan</u>	<u>Total</u>
2008	\$ 90.0	\$ 7.6	\$ 97.6
2009	210.0	15.2	225.2
2010	270.0	15.2	285.2
2011	300.0	15.2	315.2
2012	150.0	15.2	165.2
2013	-	1,431.6	1,431.6
	<u>\$ 1,020.0</u>	<u>\$ 1,500.0</u>	<u>\$ 2,520.0</u>

The rate of interest on borrowings under the 2006 Credit Agreement is a function of LIBOR plus a margin, the federal funds rate plus a margin, or the prime rate plus a margin. The margin is fixed with respect to the tranche B term loan facility and is adjustable based upon the Company's debt ratio (as defined in the 2006 Credit Agreement) with respect to the tranche A term loan facility and the revolving credit facility. As of May 31, 2007, the LIBOR margin for the revolving credit facility and the tranche A term loan facility is 1.25%, while the LIBOR margin on the tranche B term loan facility is 1.50%.

The February Amendment amended the June 2006 Credit Agreement to, among other things, (i) increase the revolving credit facility from \$500.0 million to \$900.0 million, which increased the aggregate credit facilities from \$3.5 billion to \$3.9 billion; (ii) increase the aggregate amount of cash payments the Company is permitted to make in respect or on account of its capital stock; (iii) remove certain limitations on the application of proceeds from the incurrence of senior unsecured indebtedness; (iv) increase the maximum permitted total "Debt Ratio" and decrease the required minimum "Interest Coverage Ratio"; and (v) eliminate the "Senior Debt Ratio" covenant and the "Fixed Charges Ratio" covenant.

The Company's obligations are guaranteed by certain of its U.S. subsidiaries. These obligations are also secured by a pledge of (i) 100% of the ownership interests in certain of the Company's U.S. subsidiaries and (ii) 65% of the voting capital stock of certain of the Company's foreign subsidiaries.

The Company and its subsidiaries are also subject to covenants that are contained in the 2006 Credit Agreement, including those restricting the incurrence of additional indebtedness (including guarantees of indebtedness), additional liens, mergers and consolidations, disposition or acquisition of property, the payment of dividends, transactions with affiliates and the making of certain investments, in each case subject to numerous conditions, exceptions and thresholds. The financial covenants are limited to maximum total debt-coverage ratios and minimum interest coverage ratios.

As of May 31, 2007, under the 2006 Credit Agreement, the Company had outstanding tranche A term loans of \$1.0 billion bearing an interest rate of 6.6%, tranche B term loans of \$1.5 billion bearing an interest rate of 6.9%, revolving loans of \$45.5 million bearing an interest rate of 6.5%, outstanding letters of credit of \$34.3 million, and \$820.2 million in revolving loans available to be drawn.

As of May 31, 2007, the Company had outstanding interest rate swap agreements which fixed LIBOR interest rates on \$1.2 billion of the Company's floating LIBOR rate debt at an average rate of 4.1% through fiscal 2010. For the three months ended May 31, 2007, and May 31, 2006, the Company reclassified \$1.8 million, net of tax effect of \$1.2 million, and \$0.8 million, net of tax effect of \$0.5 million, respectively, from AOCI to the interest expense, net line in the Company's Consolidated Statements of Income. This non-cash operating activity is included on the other, net line in the Company's Consolidated Statements of Cash Flows.

### ***Senior Notes***

As of May 31, 2007, the Company had outstanding £1.0 million (\$2.0 million) aggregate principal amount of 8 1/2% Series B Senior Notes due November 2009 (the "Sterling Series B Senior Notes"). In addition, as of May 31, 2007, the Company had outstanding £154.0 million (\$304.6 million, net of \$0.3 million unamortized discount) aggregate principal amount of 8 1/2% Series C Senior Notes due November 2009 (the "Sterling Series C Senior Notes"). The Sterling Series B Senior Notes and Sterling Series C Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

In addition, as of May 31, 2007, the Company had outstanding \$200.0 million aggregate principal amount of 8% Senior Notes due February 2008 (the "February 2001 Senior Notes"). The February 2001 Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

Also, as of May 31, 2007, the Company had outstanding \$693.5 million (net of \$6.5 million unamortized discount) aggregate principal amount of 7 1/4% Senior Notes due September 2016 (the "August 2006 Senior Notes"). The August 2006 Senior Notes are redeemable, in whole or in part, at the option of the Company at any time at a redemption price equal to 100% of the outstanding principal amount and a make whole payment based on the present value of the future payments at the applicable Treasury Rate plus 50 basis points.

On May 14, 2007, the Company issued \$700.0 million aggregate principal amount of 7 1/4% Senior Notes due May 2017 (the "May 2007 Senior Notes"). The net proceeds of the offering (\$694.5 million) were used to reduce a corresponding amount of borrowings under the revolving portion of the Company's 2006 Credit Agreement. Interest on the May 2007 Senior Notes is payable semiannually on May 15 and November 15 of each year, beginning November 15, 2007. The May 2007 Senior Notes are redeemable, in whole or in part, at the option of the Company at any time at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest to the redemption date, plus a make whole payment based on the present value of the future payments at the applicable Treasury Rate plus 50 basis points. The May 2007 Senior Notes are unsecured senior obligations and rank equally in right of payment to all existing and future unsecured senior indebtedness of the Company. Certain of the Company's significant U.S. operating subsidiaries guarantee the May 2007 Senior Notes, on an unsecured senior basis. As of May 31, 2007, the Company had outstanding \$700.0 million aggregate principal amount of May 2007 Senior Notes.

### ***Senior Subordinated Notes***

As of May 31, 2007, the Company had outstanding \$250.0 million aggregate principal amount of 8 1/8% Senior Subordinated Notes due January 2012 (the "January 2002 Senior Subordinated Notes"). The January 2002 Senior Subordinated Notes are currently redeemable, in whole or in part, at the option of the Company.

### ***Subsidiary Credit Facilities***

The Company has additional credit arrangements totaling \$381.6 million as of May 31, 2007. These arrangements primarily support the financing needs of the Company's domestic and foreign subsidiary operations. Interest rates and other terms of these borrowings vary from country to country, depending on local market conditions. As of May 31, 2007, amounts outstanding under these arrangements were \$271.3 million.

### **Accounting Pronouncements Not Yet Adopted**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS No. 157"), "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing the asset or liability. The Company is required to adopt SFAS No. 157 for fiscal years and interim periods beginning March 1, 2008. The Company is currently assessing the financial impact of SFAS No. 157 on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 ("SFAS No. 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Company adopted this provision of SFAS No. 158 and provided the required disclosures as of February 28, 2007. SFAS No. 158 also requires companies to measure the funded status of a plan as of the date of the company's fiscal year-end (with limited exceptions), which provision the Company is required to adopt as of February 28, 2009. The Company does not expect the adoption of the remaining provision of SFAS No. 158 to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("SFAS No. 159"), "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 allows companies to choose to measure eligible items at fair value at specified election dates. The Company will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (i) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (ii) is irrevocable (unless a new election date occurs); and (iii) is applied only to entire instruments and not to portions of instruments. The Company is required to adopt SFAS No. 159 for fiscal years beginning after February 28, 2009. The Company does not expect the adoption of SFAS No. 159 to have a material impact on its consolidated financial statements.

## Information Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company’s control, that could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q, including without limitation statements under Part I - Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding (i) the Company’s business strategy, future financial position, prospects, plans and objectives of management, (ii) the expected impact upon the Company’s net sales and diluted earnings per share resulting from the decision to reduce distributor inventory wine levels in the U.S., (iii) the Company’s expected restructuring and related charges, accelerated depreciation costs, acquisition-related integration costs, and other related charges, and (iv) information regarding expected actions of third parties are forward-looking statements. When used in this Quarterly Report on Form 10-Q, the words “anticipate,” “intend,” “expect,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. In addition to the risks and uncertainties of ordinary business operations, the forward-looking statements of the Company contained in this Quarterly Report on Form 10-Q are also subject to the risk and uncertainty that (i) the impact upon net sales and diluted earnings per share resulting from the decision to reduce distributor wine inventory levels will vary from current expectations due to the actual levels of distributor wine inventory level reductions and (ii) the Company’s restructuring and related charges, accelerated depreciation costs, acquisition-related integration costs, and other related charges may exceed current expectations due to, among other reasons, variations in anticipated headcount reductions, contract terminations or greater than anticipated implementation costs. For additional information about risks and uncertainties that could adversely affect the Company’s forward-looking statements, please refer to Item 1A “Risk Factors” of the Company’s Annual Report on Form 10-K for the fiscal year ended February 28, 2007.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company, as a result of its global operating, acquisition and financing activities, is exposed to market risk associated with changes in foreign currency exchange rates and interest rates. To manage the volatility relating to these risks, the Company periodically purchases and/or sells derivative instruments including foreign currency exchange contracts and interest rate swap agreements. The Company uses derivative instruments solely to reduce the financial impact of these risks and does not use derivative instruments for trading purposes.

Foreign currency forward contracts are or may be used to hedge existing foreign currency denominated assets and liabilities, forecasted foreign currency denominated sales both to third parties as well as intercompany sales, intercompany principal and interest payments, and in connection with acquisitions or joint venture investments outside the U.S. As of May 31, 2007, the Company had exposures to foreign currency risk primarily related to the Australian dollar, euro, New Zealand dollar, British pound sterling, Canadian dollar and Mexican peso.

As of May 31, 2007, and May 31, 2006, the Company had outstanding foreign exchange derivative instruments with a notional value of \$2,177.3 million and \$2,636.3 million, respectively. Approximately 67% of the Company's total exposures were hedged as of May 31, 2007. Using a sensitivity analysis based on estimated fair value of open contracts using forward rates, if the contract base currency had been 10% weaker as of May 31, 2007, and May 31, 2006, the fair value of open foreign exchange contracts would have been increased by \$162.4 million and \$27.2 million, respectively. Losses or gains from the revaluation or settlement of the related underlying positions would substantially offset such gains or losses on the derivative instruments.

The fair value of fixed rate debt is subject to interest rate risk, credit risk and foreign currency risk. The estimated fair value of the Company's total fixed rate debt, including current maturities, was \$2,282.4 million and \$1,017.5 million as of May 31, 2007, and May 31, 2006, respectively. A hypothetical 1% increase from prevailing interest rates as of May 31, 2007, and May 31, 2006, would have resulted in a decrease in fair value of fixed interest rate long-term debt by \$112.7 million and \$31.3 million, respectively.

As of May 31, 2007, and May 31, 2006, the Company had outstanding interest rate swap agreements to minimize interest rate volatility. The swap agreements fix LIBOR interest rates on \$1,200.0 million of the Company's floating LIBOR rate debt at an average rate of 4.1% through fiscal 2010. A hypothetical 1% increase from prevailing interest rates as of May 31, 2007, and May 31, 2006, would have increased the fair value of the interest rate swaps by \$34.0 million and \$41.0 million, respectively.

In addition to the \$2,282.4 million and \$1,017.5 million estimated fair value of fixed rate debt outstanding as of May 31, 2007, and May 31, 2006, respectively, the Company also had variable rate debt outstanding (primarily LIBOR based) as of May 31, 2007, and May 31, 2006, of \$2,762.3 million and \$1,890.3 million, respectively. Using a sensitivity analysis based on a hypothetical 1% increase in prevailing interest rates over a 12-month period, the approximate increase in cash required for interest as of May 31, 2007, and May 31, 2006, is \$27.6 million and \$18.9 million, respectively.

#### **Item 4. Controls and Procedures**

##### Disclosure Controls and Procedures

The Company's Chief Executive Officer and its Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to the Company's management, including its Chief Executive Officer and its Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

##### Internal Control Over Financial Reporting

In connection with the foregoing evaluation by the Company's Chief Executive Officer and its Chief Financial Officer, no changes were identified in the Company's "internal control over financial reporting" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(f) and 15d-15(f)) that occurred during the Company's fiscal quarter ended May 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## PART II - OTHER INFORMATION

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program <sup>(1)</sup>
March 1 - 31, 2007	-	\$ -	-	\$ 500,000,000
April 1 - 30, 2007	2,855,600	22.52	2,855,600	435,704,733
May 1 - 31, 2007	17,543,662 <sup>(2)</sup>	24.84 <sup>(2)</sup>	17,543,662	-
Total	<u>20,399,262</u>	<u>\$ 24.51</u>	<u>20,399,262</u>	<u>\$ -</u>

<sup>(1)</sup> As announced on March 1, 2007, during February 2007 the Company's Board of Directors authorized the repurchase from time to time of up to \$500.0 million of the Company's Class A and Class B Common Stock (the "2007 Authorization"). The Board of Directors did not specify a date upon which this authorization would expire. The accelerated share repurchase transaction described in footnote <sup>(2)</sup> and the other purchases reported in this table have utilized fully the 2007 Authorization.

<sup>(2)</sup> Includes 16,899,062 shares of Class A Common Stock (the "Minimum Shares") received by the Company on May 8, 2007, pursuant to a Confirmation, dated May 6, 2007, between the Company and Citibank, N.A. ("Citibank") with respect to an accelerated share repurchase of the Company's Class A Common Stock (the "Confirmation"). Pursuant to the Confirmation, the Company paid Citibank a fixed purchase price of \$421,079,174 on May 8, 2006, in exchange for the Minimum Shares. At the end of a pricing period, Citibank may be obligated to deliver additional shares of Class A Common Stock to the Company based on the application of a formula set forth in the Confirmation. The average price paid per share reflected in the table is calculated based on the allocation of the entire purchase price paid pursuant to the Confirmation to the Minimum Shares.

### **Item 6. Exhibits**

Exhibits required to be filed by Item 601 of Regulation S-K.

For the exhibits that are filed herewith or incorporated herein by reference, see the Index to Exhibits located on page 50 of this report. The Index to Exhibits is incorporated herein by reference.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### CONSTELLATION BRANDS, INC.

Dated: July 10, 2007

By: /s/ Thomas F. Howe  
Thomas F. Howe, Senior Vice President,  
Controller

Dated: July 10, 2007

By: /s/ Robert Ryder  
Robert Ryder, Executive Vice President and Chief  
Financial Officer (principal financial officer and  
principal accounting officer)

## INDEX TO EXHIBITS

### Exhibit No.

- 2.1 Agreement and Plan of Merger, dated as of November 3, 2004, by and among Constellation Brands, Inc., a Delaware corporation, RMD Acquisition Corp., a California corporation and a wholly-owned subsidiary of Constellation Brands, Inc., and The Robert Mondavi Corporation, a California corporation (filed as Exhibit 2.6 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2004 and incorporated herein by reference).
- 2.2 Support Agreement, dated as of November 3, 2004, by and among Constellation Brands, Inc., a Delaware corporation and certain shareholders of The Robert Mondavi Corporation (filed as Exhibit 2.7 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2004 and incorporated herein by reference).
- 2.3 Arrangement Agreement dated April 2, 2006 by and among Constellation Brands, Inc., Constellation Canada Holdings Limited, and Vincor International Inc. (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated April 2, 2006 and incorporated herein by reference).
- 2.4 Amending Agreement, dated as of April 21, 2006 by and among Constellation Brands, Inc., Constellation Canada Holdings Limited, and Vincor International Inc. (filed as Exhibit 2.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2006 and incorporated herein by reference).
- 2.5 Agreement to Establish Joint Venture, dated July 17, 2006, between Barton Beers, Ltd. and Diblo, S.A. de C.V. (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated July 17, 2006, filed July 18, 2006 and incorporated herein by reference). +
- 2.6 Amendment No. 1, dated as of January 2, 2007 to the Agreement to Establish Joint Venture, dated July 17, 2006, between Barton Beers, Ltd. and Diblo, S.A. de C.V. (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated January 2, 2007, filed January 3, 2007 and incorporated herein by reference). +
- 2.7 Barton Contribution Agreement, dated July 17, 2006, among Barton Beers, Ltd., Diblo, S.A. de C.V. and Company (a Delaware limited liability company to be formed) (filed as Exhibit 2.2 to the Company's Current Report on Form 8-K dated July 17, 2006, filed July 18, 2006 and incorporated herein by reference).+
- 3.1 Restated Certificate of Incorporation of the Company (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K dated October 11, 2006, filed October 12, 2006 and incorporated herein by reference).

- 3.2 By-Laws of the Company (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2002 and incorporated herein by reference). #
- 4.1 Indenture, dated as of February 25, 1999, among the Company, as issuer, certain principal subsidiaries, as Guarantors, and BNY Midwest Trust Company (successor Trustee to Harris Trust and Savings Bank), as Trustee (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated February 25, 1999 and incorporated herein by reference). #
- 4.2 Supplemental Indenture No. 3, dated as of August 6, 1999, by and among the Company, Canandaigua B.V., Barton Canada, Ltd., Simi Winery, Inc., Franciscan Vineyards, Inc., Allberry, Inc., M.J. Lewis Corp., Cloud Peak Corporation, Mt. Veeder Corporation, SCV-EPI Vineyards, Inc., and BNY Midwest Trust Company (successor Trustee to Harris Trust and Savings Bank), as Trustee (filed as Exhibit 4.20 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 1999 and incorporated herein by reference). #
- 4.3 Supplemental Indenture No. 4, with respect to 8 1/2% Senior Notes due 2009, dated as of May 15, 2000, by and among the Company, as Issuer, certain principal subsidiaries, as Guarantors, and BNY Midwest Trust Company (successor Trustee to Harris Trust and Savings Bank), as Trustee (filed as Exhibit 4.17 to the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2000 and incorporated herein by reference). #
- 4.4 Supplemental Indenture No. 5, dated as of September 14, 2000, by and among the Company, as Issuer, certain principal subsidiaries, as Guarantors, and BNY Midwest Trust Company (successor Trustee to The Bank of New York), as Trustee (filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2000 and incorporated herein by reference). #
- 4.5 Supplemental Indenture No. 6, dated as of August 21, 2001, among the Company, Ravenswood Winery, Inc. and BNY Midwest Trust Company (successor trustee to Harris Trust and Savings Bank and The Bank of New York, as applicable), as Trustee (filed as Exhibit 4.6 to the Company's Registration Statement on Form S-3 (Pre-effective Amendment No. 1) (Registration No. 333-63480) and incorporated herein by reference).
- 4.6 Supplemental Indenture No. 7, dated as of January 23, 2002, by and among the Company, as Issuer, certain principal subsidiaries, as Guarantors, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated January 17, 2002 and incorporated herein by reference). #

- 4.7 Supplemental Indenture No. 9, dated as of July 8, 2004, by and among the Company, BRL Hardy Investments (USA) Inc., BRL Hardy (USA) Inc., Pacific Wine Partners LLC, Nobilo Holdings, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.10 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2004 and incorporated herein by reference).
- 4.8 Supplemental Indenture No. 10, dated as of September 13, 2004, by and among the Company, Constellation Trading, Inc., and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.11 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2004 and incorporated herein by reference).
- 4.9 Supplemental Indenture No. 11, dated as of December 22, 2004, by and among the Company, The Robert Mondavi Corporation, R.M.E. Inc., Robert Mondavi Winery, Robert Mondavi Investments, Robert Mondavi Affiliates d/b/a Vichon Winery and Robert Mondavi Properties, Inc., and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.12 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2004 and incorporated herein by reference).
- 4.10 Supplemental Indenture No. 12, dated as of August 11, 2006, by and among the Company, Constellation Leasing, LLC, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.12 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2006 and incorporated herein by reference).
- 4.11 Supplemental Indenture No. 13, dated as of November 30, 2006, by and among the Company, Vincor International Partnership, Vincor International II, LLC, Vincor Holdings, Inc., R.H. Phillips, Inc., The Hogue Cellars, Ltd., Vincor Finance, LLC, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.11 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2006 and incorporated herein by reference).
- 4.12 Supplemental Indenture No. 15, dated as of May 4, 2007, by and among the Company, Barton SMO Holdings LLC, ALCOFI INC., and Spirits Marque One LLC, and BNY Midwest Trust Company, as Trustee (filed herewith).
- 4.13 Indenture, with respect to 8 1/2% Senior Notes due 2009, dated as of November 17, 1999, among the Company, as Issuer, certain principal subsidiaries, as Guarantors, and BNY Midwest Trust Company (successor to Harris Trust and Savings Bank), as Trustee (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-4 (Registration No. 333-94369) and incorporated herein by reference).
- 4.14 Supplemental Indenture No. 1, dated as of August 21, 2001, among the Company, Ravenswood Winery, Inc. and BNY Midwest Trust Company (successor to Harris Trust and Savings Bank), as Trustee (filed as Exhibit 4.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2001 and incorporated herein by reference).#

- 4.15 Supplemental Indenture No. 3, dated as of July 8, 2004, by and among the Company, BRL Hardy Investments (USA) Inc., BRL Hardy (USA) Inc., Pacific Wine Partners LLC, Nobilo Holdings, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.15 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2004 and incorporated herein by reference).
- 4.16 Supplemental Indenture No. 4, dated as of September 13, 2004, by and among the Company, Constellation Trading, Inc., and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.16 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2004 and incorporated herein by reference).
- 4.17 Supplemental Indenture No. 5, dated as of December 22, 2004, by and among the Company, The Robert Mondavi Corporation, R.M.E. Inc., Robert Mondavi Winery, Robert Mondavi Investments, Robert Mondavi Affiliates d/b/a Vichon Winery and Robert Mondavi Properties, Inc., and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.18 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2004 and incorporated herein by reference).
- 4.18 Supplemental Indenture No. 6, dated as of August 11, 2006, by and among the Company, Constellation Leasing, LLC, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.19 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2006 and incorporated herein by reference).
- 4.19 Supplemental Indenture No. 7, dated as of November 30, 2006, by and among the Company, Vincor International Partnership, Vincor International II, LLC, Vincor Holdings, Inc., R.H. Phillips, Inc., The Hogue Cellars, Ltd., Vincor Finance, LLC, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.18 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2006 and incorporated herein by reference).
- 4.20 Supplemental Indenture No. 9, dated as of May 4, 2007, by and among the Company, Barton SMO Holdings LLC, ALCOFI INC., and Spirits Marque One LLC, and BNY Midwest Trust Company, as Trustee (filed herewith).
- 4.21 Indenture, with respect to 8% Senior Notes due 2008, dated as of February 21, 2001, by and among the Company, as Issuer, certain principal subsidiaries, as Guarantors and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Registration Statement filed on Form S-4 (Registration No. 333-60720) and incorporated herein by reference).
- 4.22 Supplemental Indenture No. 1, dated as of August 21, 2001, among the Company, Ravenswood Winery, Inc. and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.7 to the Company's Pre-effective Amendment No. 1 to its Registration Statement on Form S-3 (Registration No. 333-63480) and incorporated herein by reference).

- 4.23 Supplemental Indenture No. 3, dated as of July 8, 2004, by and among the Company, BRL Hardy Investments (USA) Inc., BRL Hardy (USA) Inc., Pacific Wine Partners LLC, Nobilo Holdings, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.20 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2004 and incorporated herein by reference).
- 4.24 Supplemental Indenture No. 4, dated as of September 13, 2004, by and among the Company, Constellation Trading, Inc., and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.21 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2004 and incorporated herein by reference).
- 4.25 Supplemental Indenture No. 5, dated as of December 22, 2004, by and among the Company, The Robert Mondavi Corporation, R.M.E. Inc., Robert Mondavi Winery, Robert Mondavi Investments, Robert Mondavi Affiliates d/b/a Vichon Winery and Robert Mondavi Properties, Inc., and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.24 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2004 and incorporated herein by reference).
- 4.26 Supplemental Indenture No. 6, dated as of August 11, 2006, by and among the Company, Constellation Leasing, LLC, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.26 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2006 and incorporated herein by reference).
- 4.27 Supplemental Indenture No. 7, dated as of November 30, 2006, by and among the Company, Vincor International Partnership, Vincor International II, LLC, Vincor Holdings, Inc., R.H. Phillips, Inc., The Hogue Cellars, Ltd., Vincor Finance, LLC, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.25 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2006 and incorporated herein by reference).
- 4.28 Supplemental Indenture No. 9, dated as of May 4, 2007, by and among the Company, Barton SMO Holdings LLC, ALCOFI INC., and Spirits Marque One LLC, and BNY Midwest Trust Company, as Trustee (filed herewith).
- 4.29 Indenture, with respect to 7.25% Senior Notes due 2016, dated as of August 15, 2006, by and among the Company, as Issuer, certain subsidiaries, as Guarantors and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 15, 2006, filed August 18, 2006 and incorporated herein by reference).
- 4.30 Supplemental Indenture No. 1, dated as of August 15, 2006, among the Company, as Issuer, certain subsidiaries, as Guarantors and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated August 15, 2006, filed August 18, 2006 and incorporated herein by reference).

- 4.31 Supplemental Indenture No. 2, dated as of November 30, 2006, by and among the Company, Vincor International Partnership, Vincor International II, LLC, Vincor Holdings, Inc., R.H. Phillips, Inc., The Hogue Cellars, Ltd., Vincor Finance, LLC, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.28 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2006 and incorporated herein by reference).
- 4.32 Supplemental Indenture No. 3, dated as of May 4, 2007, by and among the Company, Barton SMO Holdings LLC, ALCOFI INC., and Spirits Marque One LLC, and BNY Midwest Trust Company, as Trustee (filed herewith).
- 4.33 Indenture, with respect to 7 1/4% Senior Notes due May 2017, dated May 14, 2007, by and among the Company, as Issuer, certain subsidiaries, as Guarantors, and The Bank of New York Trust Company, N.A., as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 9, 2007, filed May 14, 2007 and incorporated herein by reference).
- 4.34 Registration Rights Agreement, with respect to 7 1/4% Senior Notes due May 2017, dated May 14, 2007, among the Company, certain subsidiaries, as Guarantors, and Banc of America Securities LLC and Citigroup Global Markets Inc., as Initial Purchasers (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 9, 2007, filed May 14, 2007 and incorporated herein by reference).
- 4.35 Credit Agreement, dated as of June 5, 2006, among Constellation, the Subsidiary Guarantors party thereto, the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Citicorp North America, Inc., as Syndication Agent, J.P. Morgan Securities Inc. and Citigroup Global Markets Inc., as Joint Lead Arrangers and Bookrunners, and The Bank of Nova Scotia and SunTrust Bank, as Co-Documentation Agents (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated June 5, 2006, filed June 9, 2006 and incorporated herein by reference).
- 4.36 Amendment No. 1, dated as of February 23, 2007, to the Credit Agreement, dated as of June 5, 2006, among Constellation, the subsidiary guarantors referred to on the signature pages to such Amendment No. 1, and JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K, dated and filed February 23, 2007, and incorporated herein by reference).
- 4.37 Guarantee Assumption Agreement, dated as of August 11, 2006, by Constellation Leasing, LLC, in favor of JPMorgan Chase Bank, N.A., as Administrative Agent, pursuant to the Credit Agreement dated as of June 5, 2006 (as modified and supplemented and in effect from time to time) (filed as Exhibit 4.29 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2006 and incorporated herein by reference).



- 4.38 Guarantee Assumption Agreement, dated as of November 30, 2006, by Vincor International Partnership, Vincor International II, LLC, Vincor Holdings, Inc., R.H. Phillips, Inc., The Hogue Cellars, Ltd., and Vincor Finance, LLC in favor of JPMorgan Chase Bank, N.A., as Administrative Agent, pursuant to the Credit Agreement dated as of June 5, 2006 (as modified and supplemented and in effect from time to time) (filed as Exhibit 4.31 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2006 and incorporated herein by reference).
- 4.39 Guarantee Assumption Agreement, dated as of May 4, 2007, by Barton SMO Holdings LLC, ALCOFI INC., and Spirits Marque One LLC in favor of JPMorgan Chase Bank, N.A., as Administrative Agent, pursuant to the Credit Agreement dated as of June 5, 2006 (as modified and supplemented and in effect from time to time) (filed herewith).
- 10.1 Amendment Number Three to the Company's Annual Management Incentive Plan (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated April 27, 2007, filed May 2, 2007 and incorporated herein by reference).\*
- 10.2 2008 Fiscal Year Award Program for Executive Officers to the Company's Annual Management Incentive Plan (filed herewith). \*+
- 10.3 Guarantee Assumption Agreement, dated as of May 4, 2007, by Barton SMO Holdings LLC, ALCOFI INC., and Spirits Marque One LLC in favor of JPMorgan Chase Bank, N.A., as Administrative Agent, pursuant to the Credit Agreement dated as of June 5, 2006 (as modified and supplemented and in effect from time to time) (filed as Exhibit 4.39 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2007 and incorporated herein by reference).
- 10.4 Confirmation, dated as of May 6, 2007, with respect to an Issuer Forward Repurchase Transaction between the Company and Citibank, N.A. (filed herewith).
- 10.5 Letter Agreement dated April 26, 2007 (together with addendum dated May 8, 2007) between the Company and Robert Ryder addressing compensation (filed herewith).\*
- 10.6 Purchase Agreement, dated May 9, 2007, among the Company, certain subsidiaries, as Guarantors, and Banc of America Securities LLC and Citigroup Global Markets Inc., as Initial Purchasers (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated May 9, 2007, filed May 14, 2007 and incorporated herein by reference).
- 10.7 First Amendment to the Constellation Brands, Inc. 2005 Supplemental Executive Retirement Plan (filed herewith). \*
- 31.1 Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).

- 31.2 Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).
- 32.1 Certification of Chief Executive Officer pursuant to Section 18 U.S.C. 1350 (filed herewith).
- 32.2 Certification of Chief Financial Officer pursuant to Section 18 U.S.C. 1350 (filed herewith).

\* Designates management contract or compensatory plan or arrangement.

# Company's Commission File No. 001-08495. For filings prior to October 4, 1999, use Commission File No. 000-07570.

+ This Exhibit has been filed separately with the Commission pursuant to an application for confidential treatment. The confidential portions of this Exhibit have been omitted and are marked by an asterisk.

The Company agrees, upon request of the Securities and Exchange Commission, to furnish copies of each instrument that defines the rights of holders of long-term debt of the Company or its subsidiaries that is not filed herewith pursuant to Item 601(b)(4)(iii)(A) because the total amount of long-term debt authorized under such instrument does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis.

**SUPPLEMENTAL INDENTURE NO. 15** (this "Supplement"), dated as of May 4, 2007 is entered into by and among CONSTELLATION BRANDS, INC., a Delaware corporation (the "Company"), BARTON SMO HOLDINGS LLC, a Delaware limited liability company, ALCOFI INC., a New York corporation, and SPIRITS MARQUE ONE LLC, a Delaware limited liability company (collectively, the "New Guarantors" and each individually, a "New Guarantor"), and BNY MIDWEST TRUST COMPANY (successor trustee to Harris Trust and Savings Bank and The Bank of New York, as applicable), as trustee (the "Trustee").

#### **RECITALS OF THE COMPANY AND THE NEW GUARANTORS**

WHEREAS, the Company, the Guarantors and the Trustee have executed and delivered an Indenture, dated as of February 25, 1999 (the "February 1999 Indenture") as supplemented by a Supplemental Indenture No. 4 dated as of May 15, 2000 with respect to the issuance by the Company of 8 1/2% Series C Senior Notes due 2009 (the "Fourth Supplemental Indenture"); a Supplemental Indenture No. 7 dated as of January 23, 2002 with respect to the issuance by the Company of 8 1/8% Senior Subordinated Notes due 2012 in the aggregate principal amount of \$250,000,000 (the "Seventh Supplemental Indenture"); and any other supplements and amendments thereto made prior to the date hereof and in effect on the date hereof (the February 1999 Indenture, the Fourth Supplemental Indenture, the Seventh Supplemental Indenture and together with such other supplements and amendments are collectively herein referred to as the "Indentures");

WHEREAS, the Guarantors guarantee, jointly and severally, the full and punctual payment and performance when due of all Indenture Obligations;

WHEREAS, pursuant to (i) Section 4.15 of the Fourth Supplemental Indenture and (ii) Section 3.10 of the Seventh Supplemental Indenture, the New Guarantors are obligated to enter into this Supplement thereby guaranteeing the punctual payment and performance when due of all Indenture Obligations;

WHEREAS, pursuant to (i) Section 8.01 of the Fourth Supplemental Indenture and (ii) Section 11.1 of the Seventh Supplemental Indenture, the Company, the New Guarantors and the Trustee may enter into this Supplement without the consent of any Holder;

WHEREAS, the execution and delivery of this Supplement have been duly authorized by Board Resolutions of the respective Boards of Directors of the Company and New Guarantors; and

WHEREAS, all conditions and requirements necessary to make the Supplement valid and binding upon the Company and the New Guarantors, and enforceable against the Company and New Guarantors in accordance with its terms, have been performed and fulfilled.

NOW, THEREFORE, in consideration of the above premises, each of the parties hereto agrees, for the benefit of the others and for the equal and proportionate benefit of the Holders of the Securities, as follows:

#### **ARTICLE ONE**

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## **THE NEW GUARANTEE**

Section 1.01. For value received, each New Guarantor hereby absolutely, unconditionally and irrevocably guarantees (the "New Guarantee"), jointly and severally among itself and the Guarantors, to the Trustee and the Holders, as if such New Guarantor was the principal debtor, the punctual payment and performance when due of all Indenture Obligations (which for purposes of the New Guarantee shall also be deemed to include all commissions, fees, charges, costs and other expenses (including reasonable legal fees and disbursements of one counsel) arising out of or incurred by the Trustee or the Holders in connection with the enforcement of this New Guarantee). The agreements made and obligations assumed hereunder by each New Guarantor shall constitute and shall be deemed to constitute a Guarantee under the Indentures and for all purposes of the Indentures, and such New Guarantor shall be considered a Guarantor for all purposes of the Indentures as if such New Guarantor was originally named therein as a Guarantor.

Section 1.02. The New Guarantee shall be released upon the occurrence of the events as provided in the Indentures.

Section 1.03. In accordance with the terms of the Indentures, each New Guarantor hereby waives all rights of subrogation or contribution arising by reason of any payment by it pursuant to its Guarantee under the Indentures.

## **ARTICLE TWO MISCELLANEOUS**

Section 2.01. Except as otherwise expressly provided or unless the context otherwise requires, all terms used herein which are defined in the Indentures shall have the meanings assigned to them in the Indentures. Except as supplemented hereby, the Indentures (including the Guarantees incorporated therein) and the notes issued pursuant thereto are in all respects ratified and confirmed and all the terms and provisions thereof shall remain in full force and effect.

Section 2.02. This Supplement shall be effective as of the close of business on May 4, 2007.

Section 2.03. The recitals contained herein shall be taken as the statements of the Company and the New Guarantors, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Supplement.

Section 2.04. This Supplement shall be governed by and construed in accordance with the laws of the jurisdiction which govern the Indentures and their construction.

Section 2.05. This Supplement may be executed in any number of counterparts each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have caused this Supplement to be duly executed and attested all as of the day and year first above written.

**CONSTELLATION BRANDS, INC.**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Senior Vice President and Treasurer

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Vice President and  
Associate General Counsel

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**BARTON SMO HOLDINGS LLC**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Assistant Secretary

**ALCOFI INC.**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Assistant Secretary

**SPIRITS MARQUE ONE LLC**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Assistant Secretary

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**BNY MIDWEST TRUST COMPANY**

By: /s/ D.G. Donovan  
Name: D.G. Donovan  
Title: Vice President

Attest:

/s/ M. Callahan  
Name: M. Callahan  
Title: Vice President

**SUPPLEMENTAL INDENTURE NO. 9** (this “Supplement”), dated as of May 4, 2007 is entered into by and among CONSTELLATION BRANDS, INC., a Delaware corporation (the “Company”), BARTON SMO HOLDINGS LLC, a Delaware limited liability company, ALCOFI INC., a New York corporation, and SPIRITS MARQUE ONE LLC, a Delaware limited liability company (collectively, the “New Guarantors” and each individually, a “New Guarantor”), and BNY MIDWEST TRUST COMPANY (successor trustee to Harris Trust and Savings Bank and The Bank of New York, as applicable), as trustee (the “Trustee”).

#### **RECITALS OF THE COMPANY AND THE NEW GUARANTORS**

WHEREAS, the Company, the Guarantors and the Trustee have executed and delivered an Indenture, dated as of November 17, 1999, providing for the issuance by the Company of £150,000,000 aggregate principal amount of the Company’s 8 ½% Senior Notes due 2009 (together with any supplements and amendments thereto made prior to the date hereof and in effect on the date hereof, the “Indenture”), pursuant to which the Guarantors have agreed to guarantee, jointly and severally, the full and punctual payment and performance when due of all Indenture Obligations;

WHEREAS, each New Guarantor has become a Subsidiary and, pursuant to Section 4.15 of the Indenture, is obligated to enter into this Supplement thereby guaranteeing the punctual payment and performance when due of all Indenture Obligations;

WHEREAS, pursuant to Section 8.01 of the Indenture, the Company, the New Guarantors and the Trustee may enter into this Supplement without the consent of any Holder;

WHEREAS, the execution and delivery of this Supplement have been duly authorized by Board Resolutions of the respective Boards of Directors of the Company and New Guarantors; and

WHEREAS, all conditions and requirements necessary to make the Supplement valid and binding upon the Company and New Guarantors, and enforceable against the Company and New Guarantors in accordance with its terms, have been performed and fulfilled.

NOW, THEREFORE, in consideration of the above premises, each of the parties hereto agrees, for the benefit of the others and for the equal and proportionate benefit of the Holders of the Securities, as follows:

#### **ARTICLE ONE THE NEW GUARANTEE**

Section 1.01. For value received, each New Guarantor hereby absolutely, unconditionally and irrevocably guarantees (the “New Guarantee”), jointly and severally among itself and the Guarantors, to the Trustee and the Holders, as if such New Guarantor was the principal debtor, the punctual payment and performance when due of all Indenture Obligations (which for purposes of the New Guarantee shall also be deemed to include all commissions, fees, charges, costs and other expenses (including reasonable legal fees and disbursements of one counsel) arising out of or incurred by the Trustee or the Holders in connection with the enforcement of this New Guarantee). The agreements made and obligations assumed hereunder

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by each New Guarantor shall constitute and shall be deemed to constitute a Guarantee under the Indenture and for all purposes of the Indenture, and such New Guarantor shall be considered a Guarantor for all purposes of the Indenture as if such New Guarantor was originally named therein as the Guarantor.

Section 1.02. The New Guarantee shall be released upon the occurrence of the events as provided in the Indenture.

Section 1.03. In accordance with the terms of the Indentures, each New Guarantor hereby waives all rights of subrogation or contribution arising by reason of any payment by it pursuant to its Guarantee under the Indenture.

**ARTICLE TWO  
MISCELLANEOUS**

Section 2.01. Except as otherwise expressly provided or unless the context otherwise requires, all terms used herein which are defined in the Indenture shall have the meanings assigned to them in the Indenture. Except as supplemented hereby, the Indenture (including the Guarantees incorporated therein) and the notes issued pursuant thereto are in all respects ratified and confirmed and all the terms and provisions thereof shall remain in full force and effect.

Section 2.02 This Supplement shall be effective as of the close of business on May 4, 2007.

Section 2.03. The recitals contained herein shall be taken as the statements of the Company and New Guarantors, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Supplement.

Section 2.04. This Supplement shall be governed by and construed in accordance with the laws of the jurisdiction which govern the Indenture and its construction.

Section 2.05. This Supplement may be executed in any number of counterparts each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have caused this Supplement to be duly executed and attested all as of the day and year first above written.

**CONSTELLATION BRANDS, INC.**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Senior Vice President and Treasurer

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Vice President and  
Associate General Counsel

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**BARTON SMO HOLDINGS LLC**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Assistant Secretary

**ALCOFI INC.**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Assistant Secretary

**SPIRITS MARQUE ONE LLC**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Assistant Secretary

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**BNY MIDWEST TRUST COMPANY**

By: /s/ D.G. Donovan  
Name: D.G. Donovan  
Title: Vice President

Attest:

/s/ M. Callahan  
Name: M. Callahan  
Title: Vice President

**SUPPLEMENTAL INDENTURE NO. 9** (this “Supplement”), dated as of May 4, 2007 is entered into by and among CONSTELLATION BRANDS, INC., a Delaware corporation (the “Company”), BARTON SMO HOLDINGS LLC, a Delaware limited liability company, ALCOFI INC., a New York corporation, and SPIRITS MARQUE ONE LLC, a Delaware limited liability company (collectively, the “New Guarantors” and each individually, a “New Guarantor”), and BNY MIDWEST TRUST COMPANY (successor trustee to Harris Trust and Savings Bank and The Bank of New York, as applicable), as trustee (the “Trustee”).

#### **RECITALS OF THE COMPANY AND THE NEW GUARANTORS**

WHEREAS, the Company, the Guarantors and the Trustee have executed and delivered an Indenture, dated as of February 21, 2001, providing for the issuance by the Company of \$200,000,000 aggregate principal amount of the Company’s 8% Senior Notes due 2008 (together with any supplements and amendments thereto made prior to the date hereof and in effect on the date hereof, the “Indenture”), pursuant to which the Guarantors have agreed to guarantee, jointly and severally, the full and punctual payment and performance when due of all Indenture Obligations;

WHEREAS, each New Guarantor has become a Subsidiary and, pursuant to Section 4.15 of the Indenture, is obligated to enter into this Supplement thereby guaranteeing the punctual payment and performance when due of all Indenture Obligations;

WHEREAS, pursuant to Section 8.01 of the Indenture, the Company, the New Guarantors and the Trustee may enter into this Supplement without the consent of any Holder;

WHEREAS, the execution and delivery of this Supplement have been duly authorized by Board Resolutions of the respective Boards of Directors of the Company and New Guarantors; and

WHEREAS, all conditions and requirements necessary to make the Supplement valid and binding upon the Company and New Guarantors, and enforceable against the Company and New Guarantors in accordance with its terms, have been performed and fulfilled.

NOW, THEREFORE, in consideration of the above premises, each of the parties hereto agrees, for the benefit of the others and for the equal and proportionate benefit of the Holders of the Securities, as follows:

#### **ARTICLE ONE THE NEW GUARANTEE**

Section 1.01. For value received, each New Guarantor hereby absolutely, unconditionally and irrevocably guarantees (the “New Guarantee”), jointly and severally among itself and the Guarantors, to the Trustee and the Holders, as if such New Guarantor was the principal debtor, the punctual payment and performance when due of all Indenture Obligations (which for purposes of the New Guarantee shall also be deemed to include all commissions, fees, charges, costs and other expenses (including reasonable legal fees and disbursements of one counsel) arising out of or incurred by the Trustee or the Holders in connection with the enforcement of this New Guarantee). The agreements made and obligations assumed hereunder

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by each New Guarantor shall constitute and shall be deemed to constitute a Guarantee under the Indenture and for all purposes of the Indenture, and such New Guarantor shall be considered a Guarantor for all purposes of the Indenture as if such New Guarantor was originally named therein as the Guarantor.

Section 1.02. The New Guarantee shall be released upon the occurrence of the events as provided in the Indenture.

Section 1.03. In accordance with the terms of the Indenture, each New Guarantor hereby waives all rights of subrogation or contribution arising by reason of any payment by it pursuant to its Guarantee under the Indenture.

## **ARTICLE TWO MISCELLANEOUS**

Section 2.01. Except as otherwise expressly provided or unless the context otherwise requires, all terms used herein which are defined in the Indenture shall have the meanings assigned to them in the Indenture. Except as supplemented hereby, the Indenture (including the Guarantees incorporated therein) and the notes issued pursuant thereto are in all respects ratified and confirmed and all the terms and provisions thereof shall remain in full force and effect.

Section 2.02 This Supplement shall be effective as of the close of business on May 4, 2007.

Section 2.03. The recitals contained herein shall be taken as the statements of the Company and New Guarantors, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Supplement.

Section 2.04. This Supplement shall be governed by and construed in accordance with the laws of the jurisdiction which govern the Indenture and its construction.

Section 2.05. This Supplement may be executed in any number of counterparts each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have caused this Supplement to be duly executed and attested all as of the day and year first above written.

**CONSTELLATION BRANDS, INC.**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Senior Vice President and Treasurer

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Vice President and  
Associate General Counsel

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**BARTON SMO HOLDINGS LLC**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi

Name: Barbara J. LaVerdi  
Title: Assistant Secretary

**ALCOFI INC.**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi

Name: Barbara J. LaVerdi  
Title: Assistant Secretary

**SPIRITS MARQUE ONE LLC**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi

Name: Barbara J. LaVerdi  
Title: Assistant Secretary

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**BNY MIDWEST TRUST COMPANY**

By: /s/ D.G. Donovan  
Name: D.G. Donovan  
Title: Vice President

Attest:

/s/ M. Callahan  
Name: M. Callahan  
Title: Vice President

**SUPPLEMENTAL INDENTURE NO. 3** (this “Supplement”), dated as of May 4, 2007 is entered into by and among CONSTELLATION BRANDS, INC., a Delaware corporation (the “Company”), BARTON SMO HOLDINGS LLC, a Delaware limited liability company, ALCOFI INC., a New York corporation, and SPIRITS MARQUE ONE LLC, a Delaware limited liability company (collectively, the “New Guarantors” and each individually, a “New Guarantor”), and BNY MIDWEST TRUST COMPANY, as trustee (the “Trustee”).

**RECITALS OF THE COMPANY AND THE NEW GUARANTORS**

WHEREAS, the Company, the Guarantors and the Trustee have executed and delivered an Indenture, dated as of August 15, 2006 (the “Base Indenture”), as supplemented by Supplemental Indenture No. 1, dated as of August 15, 2006, providing for the issuance of the Company’s 7.25% Senior Notes due 2016 (the “First Supplemental Indenture”) and by any other supplements and amendments thereto made prior to the date hereof and in effect on the date hereof (the Base Indenture, the First Supplemental Indenture and together with such other supplements and amendments are collectively herein referred to as the “Indenture”), pursuant to which the Guarantors have agreed to guarantee, jointly and severally, the full and punctual payment and performance when due of all Indenture Obligations;

WHEREAS, each New Guarantor is obligated, pursuant to Section 3.4 of the First Supplemental Indenture, to enter into this Supplement thereby guaranteeing the punctual payment and performance when due of all Indenture Obligations;

WHEREAS, pursuant to Section 8.1 of the First Supplemental Indenture, the Company, the New Guarantors and the Trustee may enter into this Supplement without the consent of any Holder;

WHEREAS, the execution and delivery of this Supplement have been duly authorized by all requisite action on the part of the Company and New Guarantors; and

WHEREAS, all conditions and requirements necessary to make this Supplement valid and binding upon the Company and the New Guarantors, and enforceable against the Company and the New Guarantors in accordance with its terms have been performed and fulfilled.

NOW, THEREFORE, in consideration of the above premises, each of the parties hereto agrees, for the benefit of the others and for the equal and proportionate benefit of the Holders of the Securities, as follows:

**ARTICLE ONE  
THE NEW GUARANTEE**

Section 1.01. For value received, each New Guarantor hereby absolutely, unconditionally and irrevocably guarantees (the “New Guarantee”), jointly and severally among itself and the Guarantors, to the Trustee and the Holders, as if such New Guarantor was the principal debtor, the punctual payment and performance when due of all Indenture Obligations (which for purposes of the New Guarantee shall also be deemed to include all commissions, fees, charges, costs and other expenses (including reasonable legal fees and disbursements of one counsel)

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arising out of or incurred by the Trustee or the Holders in connection with the enforcement of this New Guarantee) in accordance with, and on the terms set forth in, the Indenture. The agreements made and obligations assumed hereunder by each New Guarantor shall constitute and shall be deemed to constitute a Guarantee under the Indenture and for all purposes of the Indenture, and such New Guarantor shall be considered a Guarantor for all purposes of the Indenture as if such New Guarantor was originally named therein as the Guarantor.

Section 1.02. The New Guarantee shall be released upon the occurrence of the events as provided in the Indenture.

Section 1.03. In accordance with the terms of the Indenture, each New Guarantor hereby waives any claim or other rights that it may now or hereafter acquire against the Company that arise from the existence, payment, performance or enforcement of such New Guarantor's obligations under the Indenture or any other documents or instrument including, without limitation, any right of subrogation, reimbursement, exoneration, contribution, indemnification, or any right to participate in any claim or remedy of the Guaranteed Parties against the Company.

**ARTICLE TWO  
MISCELLANEOUS**

Section 2.01. Except as otherwise expressly provided or unless the context otherwise requires, all terms used herein which are defined in the Indenture shall have the meanings assigned to them in the Indenture. Except as supplemented hereby, the Indenture (including the Guarantees incorporated therein) and the notes issued pursuant thereto are in all respects ratified and confirmed and all the terms and provisions thereof shall remain in full force and effect.

Section 2.02 This Supplement shall be effective as of the close of business on May 4, 2007.

Section 2.03. The recitals contained herein shall be taken as the statements of the Company and New Guarantors, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Supplement.

Section 2.04. This Supplement shall be governed by and construed in accordance with the laws of the jurisdiction which govern the Indenture and its construction.

Section 2.05. This Supplement may be executed in any number of counterparts each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have caused this Supplement to be duly executed and attested all as of the day and year first above written.

**CONSTELLATION BRANDS, INC.**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Senior Vice President and Treasurer

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Vice President and  
Associate General Counsel

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**BARTON SMO HOLDINGS LLC**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Assistant Secretary

**ALCOFI INC.**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Assistant Secretary

**SPIRITS MARQUE ONE LLC**

By: /s/ Thomas D. Roberts  
Name: Thomas D. Roberts  
Title: Vice President

Attest:

/s/ Barbara J. LaVerdi  
Name: Barbara J. LaVerdi  
Title: Assistant Secretary

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**BNY MIDWEST TRUST COMPANY**

By: /s/ D.G. Donovan  
Name: D.G. Donovan  
Title: Vice President

Attest:

/s/ M. Callahan  
Name: M. Callahan  
Title: Vice President

## GUARANTEE ASSUMPTION AGREEMENT

GUARANTEE ASSUMPTION AGREEMENT dated as of May 4, 2007 by BARTON SMO HOLDINGS LLC, a Delaware limited liability company, ALCOFI INC., a New York corporation, and SPIRITS MARQUE ONE LLC, a Delaware limited liability company (collectively, the “Additional Subsidiary Guarantors”, and each individually, an “Additional Subsidiary Guarantor”), in favor of JPMorgan Chase Bank, N.A., as administrative agent for the lenders or other financial institutions or entities party as “Lenders” to the Credit Agreement referred to below (in such capacity, together with its successors in such capacity, the “Administrative Agent”).

Constellation Brands, Inc., a Delaware corporation, the Subsidiary Guarantors referred to therein and the Administrative Agent are parties to a Credit Agreement dated as of June 5, 2006 (as modified and supplemented and in effect from time to time, the “Credit Agreement”).

Pursuant to Section 6.09(b) of the Credit Agreement, each Additional Subsidiary Guarantor hereby agrees to become a “Subsidiary Guarantor” for all purposes of the Credit Agreement, and an “Obligor” for all purposes of the U.S. Pledge Agreement. Without limiting the foregoing, each Additional Subsidiary Guarantor hereby, jointly and severally with the other Subsidiary Guarantors, guarantees to each Lender and the Administrative Agent and their respective successors and assigns the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of all Guaranteed Obligations (as defined in Section 3.01 of the Credit Agreement) in the same manner and to the same extent as is provided in Article III of the Credit Agreement. In addition, each Additional Subsidiary Guarantor hereby makes the representations and warranties set forth in Sections 4.01, 4.02 and 4.03 of the Credit Agreement, and in Section 2 of the U.S. Pledge Agreement, with respect to itself and its obligations under this Agreement, as if each reference in such Sections to the Loan Documents included reference to this Agreement.

Each Additional Subsidiary Guarantor hereby agrees that Annex 1 of the U.S. Pledge Agreement shall be supplemented as provided in Attachment A hereto.

Guarantee Assumption Agreement

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IN WITNESS WHEREOF, each Additional Subsidiary Guarantor has caused this Guarantee Assumption Agreement to be duly executed and delivered as of the day and year first above written.

**BARTON SMO HOLDINGS LLC**

By: /s/ Thomas D. Roberts

Name: Thomas D. Roberts

Title: Vice President

**ALCOFI INC.**

By: /s/ Thomas D. Roberts

Name: Thomas D. Roberts

Title: Vice President

**SPIRITS MARQUE ONE LLC**

By: /s/ Thomas D. Roberts

Name: Thomas D. Roberts

Title: Vice President

Accepted and agreed:

/s/ JP Morgan Chase Bank, N.A., as  
Administrative Agent

By: /s/ Randolph Cates

Name: Randolph Cates

Title: Executive Director

Guarantee Assumption Agreement

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## SUPPLEMENT TO ANNEX 1 TO U.S. PLEDGE AGREEMENT

## PART A

PLEDGED STOCK

<b><u>U.S. ISSUERS</u></b>			
<b><u>Issuer</u></b>	<b><u>Certificate No.</u></b>	<b><u>Registered Owner</u></b>	<b><u>Number of Shares</u></b>
ALCOFI INC.	2	Barton SMO Holdings LLC	20 Common Shares, no par value

## PART B

PLEDGED INTERESTS

<b><u>U.S. ISSUERS</u></b>			
<b><u>Issuer</u></b>	<b><u>Certificate No.</u></b>	<b><u>Registered Owner</u></b>	<b><u>Ownership Interests</u></b>
Barton SMO Holdings LLC	A-1	Barton Incorporated	249,717 Class A Common Shares, no par value
SPIRITS MARQUE ONE LLC	4	ALCOFI INC.	100%, no par value

Guarantee Assumption Agreement

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**[LOGO]**

**Constellation**

**CONSTELLATION BRANDS, INC.  
EXECUTIVE ANNUAL MANAGEMENT INCENTIVE PLAN  
2008 FISCAL YEAR AWARD PROGRAM  
FOR EXECUTIVE OFFICERS**

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CONSTELLATION BRANDS, INC.

EXECUTIVE ANNUAL MANAGEMENT INCENTIVE PLAN  
2008 FISCAL YEAR AWARD PROGRAM  
FOR EXECUTIVE OFFICERS

TABLE OF CONTENTS

<u>Paragraph</u>		<u>Page</u>
1.	PROGRAM OBJECTIVES	1
2.	PROGRAM ADMINISTRATION	1
3.	PROGRAM PARTICIPATION	2
4.	TERMINATION OF EMPLOYMENT	2
5.	AWARD LEVELS	2
6.	PERFORMANCE TARGETS	3
7.	EFFECT OF MERGER, ACQUISITION, REORGANIZATION, ETC.	3
8.	PAYMENT OF AWARDS	4
9.	ASSIGNMENT	4
10.	EMPLOYMENT RIGHT	4
11.	WITHHOLDING FOR TAXES	4
12.	SPECIAL RULES FOR CERTAIN EXECUTIVES	5
13.	DEFINITIONS	5

**CONSTELLATION BRANDS, INC.**  
**EXECUTIVE ANNUAL MANAGEMENT INCENTIVE PLAN**  
**2008 FISCAL YEAR AWARD PROGRAM**  
**FOR EXECUTIVE OFFICERS**

**Purpose:** This document is intended to describe parameters for making incentive awards for the period commencing March 1, 2007 and ending February 29, 2008 during the Company's 2008 fiscal year (the "Program"). The Company has adopted the Annual Management Incentive Plan (the "Plan") which authorizes the Company to grant incentive compensation to certain employees. All awards granted under the Program will be granted pursuant and subject to the terms of the Plan. Notwithstanding anything to the contrary, awards to participants in the Program are subject to the Company's shareholders reapproving the terms of the Plan, including Amendment Number 3 to the Plan. If the Company's shareholders do not reapprove the Plan (including Amendment Number 3) prior to February 29, 2008, no awards to participants will be made under the Program.

1. **PROGRAM OBJECTIVES**

The objectives of the Program are to:

- A. Support the Company's annual planning, budget and strategic planning process;
- B. Provide compensation opportunities which are competitive with those of other beverage alcohol or industry related companies in order to attract and retain key executives;
- C. Motivate executives to achieve profit and other key goals of the Company;
- D. Control overhead by designating a portion of annual compensation as a variable rather than fixed expense.

2. **PROGRAM ADMINISTRATION**

- A. The Human Resources Committee (the "Committee") of the Company's Board of Directors is responsible for determining which employees shall receive awards and the amounts, terms and conditions of all awards under the Program. The Committee will delegate certain administrative duties to the Executive Vice President, Chief Human Resources Officer.
  - B. Decisions and determinations by the Committee will be final and binding upon all persons, including, but not limited to, participants and their personal representatives, heirs and assigns.
  - C. This Program creates no vested or contractual right to the compensation provided herein. The Committee shall have the authority to interpret, amend or cancel the Program at any time, or to make any other determinations that it believes necessary or advisable for the administration of the Program. The Committee's authority includes the power, in its sole discretion, to reduce the amount of or eliminate an Award payable to a participant.
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3. **PROGRAM PARTICIPATION**

- A. The Committee is responsible for determining who may participate in the Program. The Company will provide a written recommendation to the Committee of the employees who he believes should be included in the Program for a Plan Year. Generally, Awards will be made to employees who the Committee believes are in a position to make significant contributions to the financial success of the Company.
- B. The participants for the Plan Year are identified in Schedule A. These schedules may be revised at any time during the year, as appropriate.
- C. To the extent permitted by Section 162(m) of the Internal Revenue Code, participants may be added to the Program at any time during a Plan Year provided that such addition occurs before December of the Plan Year. In this case, a participant's Salary for purposes of determining an Award shall be prorated for the period remaining in the Plan Year. For purposes of proration, a participant shall be given credit for the entire month of any month in which the participant participates in the Program.

4. **TERMINATION OF EMPLOYMENT**

- A. In the event that a participant terminates employment for reasons other than death, Disability, Retirement or involuntary termination without Cause during a Plan Year, the participant will forfeit all rights to an Award with respect to that Plan Year.
- B. In the event that a participant terminates employment for reasons of death, Disability, Retirement, or involuntary termination without Cause, a ratable portion of any applicable Award may be paid, subject to the attainment of the applicable performance target. The ratable portion of the Award shall be determined by multiplying the Award by a fraction the numerator of which is the number of full or partial months during the Plan Year during which the participant was employed and the denominator of which is twelve. Such amount will be paid at the same time as when Awards are paid to other participants.

5. **AWARD LEVELS**

- A. The amount of a participant's Award will be calculated based on three variables: the participant's management position, Salary and achieved performance for the Plan Year.
  - B. Each participant will be assigned to a certain category ("Participation Category") based on the participant's management position in the Company (see Schedule A).
  - C. The Committee has established performance targets for each participant that are based on one or more of the following: a Corporate financial performance target(s) ("Corporate Target"), and a Division/Company financial performance target(s) ("Divisional Target"). Schedule C sets forth the applicable Corporate and Divisional Targets. Participants who are treated as "Covered Employees" under Section 12 will have their incentive compensation calculated based solely on Corporate and Divisional Targets.
  - D. A participant who has a Corporate Target(s) and/or a Divisional Target(s) will be assigned a weighting to determine the percentage that each of the targets will contribute towards the participant's total Award. These weightings are set forth at Schedule D (e.g.,
-

the Award for a Division CEO/President will be calculated [\*\*\*\*\*] based on the Corporate Target and [\*\*\*\*\*] based on the participant's Divisional Targets). The weightings assigned to the Corporate and Divisional Targets will be referred to as the "Corporate Percentage(s)" and "Divisional Percentage(s)", respectively.

- E. A participant's Award will be calculated by multiplying the participant's Salary by the appropriate percentage set forth in the Award Schedule (Schedule B) taking into account the participant's Participation Category and performance level (e.g., threshold, target, maximum, etc.) with respect to the participant's Corporate Target(s) and multiplying such amount by the participant's Corporate Percentage(s). If the actual performance level falls between the designated levels of performance set forth in Schedule B, the percentage by which the participant's salary is multiplied will be interpolated. For example, if the actual performance level falls half way between the "threshold" and "midpoint" levels, the percentage will be calculated as the average of the percentages for the "threshold" and "midpoint" levels. A similar calculation is performed for the participant's Divisional Targets, if any, and the participant's total Award will be the sum of these calculations.

**Example:** Assume a Division CEO of Constellation Brands was listed in Participation Category A<sub>1</sub>, had a salary of [\*\*\*\*\*], and achieved the participant's "threshold" Corporate Target and "maximum" Divisional Targets. Based on these facts and Schedules B, C and D, the participant's Award would be [\*\*\*\*\*] (i.e., [\*\*\*\*\*] x [\*\*\*\*\*] x [\*\*\*\*\*] + [\*\*\*\*\*] x [\*\*\*\*\*] x [\*\*\*\*\*] + [\*\*\*\*\*] x [\*\*\*\*\*] x [\*\*\*\*\*]).

6. **PERFORMANCE TARGETS**

- A. Performance measurement criteria will be established for the Plan Year and such criteria will relate to corporate and/or divisional objectives. Performance targets will be established based on the selected criteria. Schedule C sets forth the applicable corporate and divisional performance criteria and targets for the Plan Year.
- B. Schedule B sets forth the Award levels based on the attainment of the Corporate, Divisional, Individual and Team Targets determined in accordance with the criteria and targets set forth in Schedule C.

7. **EFFECT OF EXTRAORDINARY ITEMS, MERGER, ACQUISITION, REORGANIZATION, ETC.**

- A. The Committee shall adjust the performance measurement criteria to take into account the effects of any "Extraordinary Items." "Extraordinary Items" means (1) items presented as such (or other comparable terms) on the Company's audited financial statements, (2) extraordinary, unusual or nonrecurring items of gain or loss (including, without limitation, an unbudgeted material expense incurred by or at the direction of the Board of Directors or a Committee of the Board or a material litigation judgment or

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**Confidential materials omitted and filed separately with the Securities and Exchange Commission.  
Asterisks denote such omission.**

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settlement), (3) changes in tax or accounting laws or rules, and (4) the effects of mergers, acquisitions, divestitures, spin-offs or significant transactions (including, without limitation, a corporate merger, consolidation, acquisition of property or stock, reorganization, restructuring charge, or joint venture), each of which are identified in the audited financial statements and notes thereto or in the “management’s discussion and analysis” of the financial statements in a period report filed with the SEC under the Exchange Act. The Committee shall make such adjustments to the performance measurement criteria as shall be equitable and appropriate in order to make the criteria, as nearly as practicable, equivalent to the criteria immediately prior to such transaction or event.

- B. In the event of a Change of Control, as defined under the Plan, the Plan Year shall end on the date of the Change in Control and the Corporate and Divisional Targets shall be adjusted to reflect the early termination of the Plan Year. If the Corporate and Divisional Targets, as adjusted, are deemed satisfied by the Committee, a participant may receive a ratable portion of the Award that would have been paid if the Plan Year had not been terminated early and the Corporate and Divisional Targets had been satisfied. The ratable portion of the Award shall be determined by multiplying the original Award by a fraction with a numerator equal to the number of months from the first day of the Plan Year to the date of the Change of Control (including any fractional month) and a denominator equal to twelve.

8. **PAYMENT OF AWARDS**

The entire Award calculated in accordance herewith shall be payable within thirty (30) days after the Committee approves the final year end performance in accordance with the plan document. Before any Award is paid to a participant, the Committee will certify, in writing, that the applicable performance targets were achieved and the amount of the Award is accurately calculated.

9. **ASSIGNMENT**

No right or interest of any Participant in the Program shall be assignable or transferable, or subject to any lien, directly, by operation of law, or otherwise, including levy, garnishment, attachment, pledge or bankruptcy.

10. **EMPLOYMENT RIGHT**

The Program shall not confer upon any participant any right to continued employment. The right to dismiss any employee with or without cause or notice is specifically reserved to the Company.

11. **WITHHOLDING FOR TAXES**

The Company shall have the right to deduct from all payments under this Program any federal or state taxes or other employment related withholdings required by law to be withheld with respect to such payments.

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12. **SPECIAL RULES FOR CERTAIN EXECUTIVES**

- A. The Company's Chief Executive Officer and certain other individuals designated by the Committee ("Covered Employees") will be subject to special rules to ensure that the Awards granted to such individuals will be treated as qualified "performance-based compensation" under Internal Revenue Code Section 162(m). All provisions of the Program and the Plan shall be interpreted and administered consistently with that intent. The Committee will designate those individuals who are to be treated as "Covered Employees" on Schedule A.
- B. Notwithstanding any provision to the contrary, the following rules will apply to Covered Employees:
- (1) The Committee shall establish Corporate and Divisional Targets for Covered Employees that are tied to one or more of the Performance Criteria set forth in the Plan.
  - (2) The Committee shall establish a Corporate Target(s) and, if applicable, a Divisional Target(s) for Covered Employees within 90 days of the commencement of the Plan Year. The satisfaction of such targets shall be substantially uncertain at the time they are established.
  - (3) The amount of the Award shall be computed under an objective formula and the Committee shall have no discretionary authority to increase the amount of the Award or alter the methodology for calculating the Award, except as permitted by Section 162(m) of the Internal Revenue Code and the regulations promulgated thereunder.
  - (4) The maximum amount a Covered Employee can receive under the Plan for the Plan Year cannot exceed \$5 million.
  - (5) Before any Award is paid to a Covered Employee, the Committee will certify, in writing, that the Corporate Target(s) and, if applicable, the Divisional Target(s) was achieved and the amount of the Award is accurately calculated.

13. **DEFINITIONS**

A. **AWARD**

"Award" shall mean the award to a Participant as determined under the Program.

B. **CAUSE**

"Cause" means gross negligence or willful misconduct or commission of a felony or an act of moral turpitude determined by the Committee to be detrimental to the best interests of the Company or, such other definition set forth in a written employment agreement with the Company.

C. **THE COMPANY**

"The Company" shall mean Constellation Brands, Inc. and its direct and indirect subsidiaries.

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D. **DISABILITY**

“Disability” is defined as termination of employment due to the inability of a Participant to engage in any substantial gain activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than six months, all as verified by a physician acceptable, or selected by, the Committee.

E. **PLAN and PLAN YEAR**

“Plan” shall mean the Constellation Brands, Inc. Annual Management Incentive Plan. “Plan Year” shall be the period commencing on March 1, 2007 and ending on February 29, 2008.

F. **RETIREMENT**

“Retirement” shall mean a termination of employment by an employee who is at least 60 years of age and after at least 10 years of service with the Company. For an individual who becomes employed by the Company in connection with a business acquisition (regardless of the form of the transaction), service shall include the individual’s service with the acquired business, unless the Committee determines otherwise.

G. **SALARY**

“Salary” shall mean the participant’s actual base compensation earned for the 2008 Fiscal Year. Actual base compensation earned shall be determined exclusive of any other compensation such as stock option income, grants of any kind, bonus awards, etc.

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SCHEDULE A

CONSTELLATION BRANDS, INC. ANNUAL MANAGEMENT INCENTIVE PLAN  
FOR EXECUTIVE OFFICERS

EXECUTIVE PARTICIPATION LIST

<u>Participation Category</u>	<u>Title</u>	<u>Participant</u>
[*****]	Chairman, CEO	R. Sands *
	President, COO	R.S. Sands *
[*****]	EVP Chief Financial Officer	T. Summer +
	EVP Chief Financial Officer**	R. Ryder *
	EVP Chief Legal Officer	T. Mullin *
	EVP Strategy & Business Development	P. Hetterich *
	EVP Chief Human Resources Officer	K. Wilson *
	CEO Barton	A. Berk *

\* "Covered" employee

\*\*Assumed position on May 15, 2007. FY08 AMIP award will not be pro-rated per employment letter.

+ Pursuant to the terms of his October 2006 employment agreement, effective May 15, 2007 he is no longer an executive officer and will not be eligible for an FY08 AMIP award.

Confidential materials omitted and filed separately with the Securities and Exchange Commission.  
Asterisks denote such omission.

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**SCHEDULE B**

**AWARD SCHEDULE  
FOR EXECUTIVE OFFICERS**

<b>Participation Category</b>	<b>Threshold</b>	<b>Midpoint</b>	<b>Target</b>	<b>Midpoint</b>	<b>Maximum</b>
A <sub>2</sub>	[*****]	[*****]	[*****]	[*****]	[*****]
A <sub>1</sub>	[*****]	[*****]	[*****]	[*****]	[*****]

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Confidential materials omitted and filed separately with the Securities and Exchange Commission.  
Asterisks denote such omission.

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**SCHEDULE C**  
**PERFORMANCE SCHEDULE**  
**(000's)**

**[\*\*\*\*\*] EBIT**

<u>0.25X</u>	<u>0.50X</u>	<u>1.00X</u>	<u>1.50X</u>	<u>2.00X</u>
[*****]	[*****]	[*****]	[*****]	[*****]

**[\*\*\*\*\*] Free Cash Flow**

<u>0.25X</u>	<u>0.50X</u>	<u>1.00X</u>	<u>1.50X</u>	<u>2.00X</u>
[*****]	[*****]	[*****]	[*****]	[*****]

**[\*\*\*\*\*] EBIT**

<u>0.25X</u>	<u>0.50X</u>	<u>1.00X</u>	<u>1.50X</u>	<u>2.00X</u>
[*****]	[*****]	[*****]	[*****]	[*****]

**[\*\*\*\*\*] Free Cash Flow**

<u>0.25X</u>	<u>0.50X</u>	<u>1.00X</u>	<u>1.50X</u>	<u>2.00X</u>
[*****]	[*****]	[*****]	[*****]	[*****]

- The measure of "EBIT" (Earnings Before Interest and Taxes) for purposes hereof shall be determined as the sum of Operating Income plus Equity in Earnings of Equity Method Investees. "EBIT" is measured based on the Company's performance for the period from March 1, 2007 through February 29, 2008.
- The measure of "Free Cash Flow" for purposes hereof shall be calculated as follows:  
Net Cash Provided by (Used in) Operating Activities minus Purchases of Property, Plant and Equipment. "Free Cash Flow" is measured based on the Company's performance for the period from March 1, 2007 through February 29, 2008.

**Confidential materials omitted and filed separately with the Securities and Exchange Commission.**  
**Asterisks denote such omission.**

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**SCHEDULE D**

**WEIGHTINGS FOR CORPORATE AND DIVISIONAL/COMPANY TARGETS**

<b>Corporate/CBI</b>	<b>Corporate EBIT</b>	<b>Corporate Free Cash Flow</b>
Chairman/CEO	[*****]	[*****]
President/COO	[*****]	[*****]
EVP	[*****]	[*****]

<b>Division/Company</b>	<b>Corporate EBIT</b>	<b>Divisional EBIT/Other</b>	<b>Divisional Free Cash Flow</b>
CEO/President	[*****]	[*****]	[*****]

Confidential materials omitted and filed separately with the Securities and Exchange Commission.  
Asterisks denote such omission.

May 6, 2007

To: Constellation Brands, Inc.  
370 Woodcliff Drive, Suite 300  
Fairport, NY 14450

From: Citibank, N.A.  
388 Greenwich Street, 5<sup>th</sup> Floor  
New York, NY 10013  
Attn: Corporate Equity Derivatives  
Telephone: (212) 723-7361/(212) 723-7026  
Facsimile: (212) 723-8328

**Re: Issuer Forward Repurchase Transaction**

Ladies and Gentlemen:

The purpose of this communication (this “**Confirmation**”) is to confirm the terms and conditions of the Transaction entered into between Citibank, N.A. (“**Bank**”), and Constellation Brands, Inc. (“**Counterparty**”) on the Trade Date specified below (the “**Transaction**”). The terms of the Transaction shall be set forth in this Confirmation. This Confirmation shall constitute a “Confirmation” as referred to in the ISDA Master Agreement specified below.

1. This Confirmation is subject to, and incorporates, the definitions and provisions of the 2000 ISDA Definitions (including the Annex thereto) (the “**2000 Definitions**”) and the definitions and provisions of the 2002 ISDA Equity Derivatives Definitions (the “**Equity Definitions**”, and together with the 2000 Definitions, the “**Definitions**”), in each case as published by the International Swaps and Derivatives Association, Inc. (“**ISDA**”). In the event of any inconsistency between the 2000 Definitions and the Equity Definitions, the Equity Definitions will govern.

This Confirmation evidences a complete and binding agreement between Bank and Counterparty as to the terms of the Transaction to which this Confirmation relates. This Confirmation shall be subject to an agreement (the “**Agreement**”) in the form of the 2002 ISDA Master Agreement (the “**ISDA Form**”) as if Bank and Counterparty had executed an agreement in such form on the date of this Confirmation, but without any Schedule except for (i) the election of New York law (without regard to the conflicts of law principles) as the governing law and U.S. Dollars (“**USD**”) as the Termination Currency, (ii) the election that subparagraph (ii) of Section 2(c) will not apply to the Transaction, (iii) the election that the “Cross Default” provisions of Section 5(a)(vi) shall not apply to Counterparty, (iv) the election that no entity shall be specified as the “Specified Entity” with regard to Counterparty with respect to Section 5, and (v) an acknowledgment by Bank that, once Counterparty has fully satisfied its payment obligation as of the Prepayment Date (as defined below), no Event of Default or a Potential Event of Default shall occur with respect to which Counterparty may be the Defaulting Party. All provisions contained or incorporated by reference in the Agreement shall govern this Confirmation except as expressly modified herein.

All provisions contained in, or incorporated by reference to, the Agreement will govern this Confirmation except as expressly modified herein. In the event of any inconsistency between this Confirmation and either the Definitions or the Agreement, this Confirmation shall govern. The Transaction is a Share Forward Transaction within the meaning set forth in the Equity Definitions.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

## General Terms:

Trade Date:	May 7, 2007
Seller:	Bank
Buyer:	Counterparty
Shares:	Class A Common Stock, par value USD 0.01 per share, of Counterparty (Ticker Symbol: “ <b>STZ</b> ”)
Prepayment:	Applicable
Prepayment Amount:	USD 421,079,174
Prepayment Date:	The first Scheduled Trading Day following the Trade Date
Notional Amount:	USD 444,237,464
Exchange:	New York Stock Exchange
Related Exchange(s):	All Exchanges
Calculation Agent:	Bank

Valuation Terms:

Averaging Dates:	Each of the consecutive Scheduled Trading Days commencing on, and including, the first Scheduled Trading Day immediately following the Trade Date and ending on, and including, the earlier of (i) the Scheduled Final Averaging Date or (ii) the Acceleration Date.
Scheduled Final Averaging Date:	October 4, 2007
Valuation Date:	The final Averaging Date
Acceleration of Valuation Date:	Bank shall have the right, in its absolute discretion, to accelerate the Valuation Date, by designating any Scheduled Trading Day, occurring on or after the Scheduled Earliest Acceleration Date, as such Valuation Date (the “ <b>Acceleration Date</b> ”) by delivering to Counterparty a written notice of such designation prior to the close of regular trading on the Exchange on the Scheduled Trading Day immediately following such Acceleration Date.
Scheduled Earliest Acceleration Date:	June 29, 2007
Averaging Date Disruption:	Modified Postponement, <i>provided</i> that notwithstanding anything to the contrary in the Equity Definitions, if a Market Disruption Event occurs on any Averaging Date, the Calculation Agent may, if appropriate in light of market conditions, regulatory considerations or otherwise, take any or all of the following actions: (i) postpone the Valuation Date in accordance with the provisions of 6.7(c)(iii) of the Equity Definitions or (ii) determine that such Averaging Date is a Disrupted Day only in part, in which case the VWAP Price for such Averaging Date shall be determined by the Calculation Agent based on Rule 10b-18 eligible transactions in the Shares on such Averaging Date effected during the portion of such Averaging Date unaffected by such event or events, and the weighing of the VWAP Prices for all other Averaging Dates shall be adjusted by the Calculation Agent for purposes of determining the Settlement Price based on, among other factors, the duration of any Market Disruption Event and the volume, historical trading patterns and price of the Shares.
Market Disruption Events:	The first sentence of Section 6.3(a) of the Equity Definitions is hereby amended (A) by deleting the words “during the one hour period that ends at the relevant Valuation Time, Latest Exercise Time, Knock-In Valuation Time or Knock-Out Valuation Time, as the case may be,” in the third, fourth and fifth lines thereof, and (B) by replacing the words “or (iii) an Early Closure.” by “(iii) an Early Closure, or (iv) a Regulatory Disruption.”
Regulatory Disruption:	Any event that Bank reasonably and in good faith concludes, based on advice of outside legal counsel, that it is appropriate with regard to any legal, regulatory or self-regulatory requirements or related policies and procedures (whether or not such requirements, policies or procedures are imposed by law or have been voluntarily adopted by Bank, and including without limitation Rule 10b-5, Regulation 13D-G and Regulation 14E under the Securities Exchange Act of 1934, as amended (the “ <b>Exchange Act</b> ”), and Regulation M), for Bank to refrain from any market activity in connection with the Transaction and Bank actually refrains from market activity as a result of such event. Bank shall notify Counterparty as soon as reasonably practicable, but in no event later than 4:00 P.M. New York City time on the next Exchange Business Day following the day on which the Regulatory Disruption occurred that a Regulatory Disruption has occurred and the Averaging Dates affected by it.

Settlement Terms:

Initial Share Delivery:	On the Initial Share Delivery Date, Bank shall deliver to Counterparty the number of Shares equal to (i) the Minimum Share Number <i>minus</i> (ii) the Original Share Number.
Initial Share Delivery Date:	The first Scheduled Trading Day following the Trade Date.
Minimum Share Number:	17,927,062
Original Share Number:	1,028,000
Settlement:	On the Settlement Date, Bank shall deliver to Counterparty, the Number of Shares to be Delivered.
Settlement Date:	The date that falls one Settlement Cycle following the Valuation Date.



Number of Shares to be Delivered:	A number of Shares equal to (i) the Settlement Share Number <i>minus</i> (ii) the Minimum Share Number.
Settlement Share Number:	A number of shares equal to (i) the Notional Amount <i>divided by</i> (ii) (A) the Settlement Price <i>minus</i> (B) the Discount per Share; <i>provided</i> that if such quotient is less than the Minimum Share Number, the Settlement Share Number shall be equal to such Minimum Share Number.
Settlement Price:	The arithmetic average of the VWAP Prices for all Averaging Dates.
Discount per Share:	USD 0.345
VWAP Price:	For any Averaging Date, the Rule 10b-18 dollar volume weighted average price per Share for such day based on transactions executed during such day, as reported on Bloomberg Page "STZ.N <Equity> AQR SEC" (or any successor thereto) or, in the event such price is not so reported on such day for any reason, as reasonably determined by the Calculation Agent.
Excess Dividend Amount:	For the avoidance of doubt, all references to the Excess Dividend Amount in Section 9.2(a)(iii) of the Equity Definitions shall be deleted.
Share Delivery Mechanics:	To the extent Bank is obligated to deliver Shares hereunder, the provisions of the last sentence of Section 9.2 and Sections 9.4, 9.7, 9.8, 9.9, 9.10, 9.11 (except that the Representation and Agreement contained in Section 9.11 of the Equity Definitions shall be modified by excluding any representations therein relating to restrictions, obligations, limitations or requirements under applicable securities laws as a result of the fact that Counterparty is the Issuer of the Shares) and 9.12 of the Equity Definitions will be applicable as if Physical Settlement applied; <i>provided</i> that both the Initial Share Delivery Date and the Settlement Date shall be deemed to be a "Settlement Date" for purpose of Section 9.4.
Dividends:	
Dividend:	Any dividend or distribution on the Shares other than any dividend or distribution of the type described in Sections 11.2(e)(i), 11.2(e)(ii)(A) or 11.2(e)(ii)(B) of the Equity Definitions.
Share Adjustments:	
Method of Adjustment:	Calculation Agent Adjustment; <i>provided</i> that Dividends shall not be Potential Adjustment Events.
Extraordinary Events:	
Consequences of Merger Events:	
(a) Share-for-Share:	Calculation Agent Adjustment
(b) Share-for-Other:	Cancellation and Payment on the portion of the Other Consideration that consists of cash; Calculation Agent Adjustment on the remainder of the Other Consideration
(c) Share-for-Combined:	Component Adjustment
Tender Offer:	Applicable
Consequences of Tender Offers:	
(a) Share-for-Share:	Calculation Agent Adjustment
(b) Share-for-Other:	Cancellation and Payment on the portion of the Other Consideration that consists of cash; Calculation Agent Adjustment on the remainder of the Other Consideration
(c) Share-for-Combined:	Component Adjustment

Nationalization, Insolvency or  
Delisting:

Cancellation and Payment (Calculation Agent Determination); *provided* that in addition to the provisions of Section 12.6(a)(iii) of the Equity Definitions, it will also constitute a Delisting if the Exchange is located in the United States and the Shares are not immediately re-listed, re-traded or re-quoted on any of the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Select Market or the NASDAQ Global Market (or their respective successors); if the Shares are immediately re-listed, re-traded or re-quoted on any such exchange or quotation system, such exchange or quotation system shall thereafter be deemed to be the Exchange.

Additional Disruption Events:

Change in Law:	Applicable
Insolvency Filing:	Applicable
Determining Party:	For all Extraordinary Events, Bank
Non-Reliance:	Applicable
Agreements and Acknowledgments Regarding Hedging Activities:	Applicable
Additional Acknowledgments:	Applicable

3. Account Details:

(a) Account for delivery of Shares to Counterparty	To be provided under separate cover
(b) Account for payments to Counterparty:	To be provided under separate cover
(c) Account for payments to Bank:	To be provided under separate cover

4. Offices:

(a) The Office of Counterparty for the Transaction is: Counterparty is not a Multibranch Party

(b) The Office of Bank for the Transaction is:  
New York

5. Notices: For purposes of this Confirmation:

(a) Address for notices or communications to Counterparty:

Constellation Brands, Inc.  
370 Woodcliff Drive, Suite 300  
Fairport, NY 14450  
Attn: General Counsel  
Telephone: (585) 218-3650  
Facsimile: (585) 218-3904

(b) Address for notices or communications to Bank:

Citibank, N.A.  
388 Greenwich Street, 5<sup>th</sup> Floor  
New York, NY 10013  
Attn: Corporate Equity Derivatives  
Telephone: (212) 723-7361/(212) 723-7026  
Facsimile: (212) 723-8328

6. Additional Provisions Relating to Transactions in the Shares.

(a) Counterparty acknowledges and agrees that the Minimum Shares delivered on the Minimum Share Delivery Date may be sold short to Counterparty. Counterparty further acknowledges that Bank may, during the period from the Trade Date to the Valuation Date (the “**Relevant Period**”), purchase Shares in connection with the Transaction, which Shares may be used to cover all or a portion of such short sale or may be delivered to Counterparty. Such purchases will be conducted independently of Counterparty. The timing of such purchases by Bank, the number of Shares purchased by Bank on any day, the price paid per Share pursuant to such purchases and the manner in which such purchases are made, including without limitation whether such purchases are made on any securities exchange or privately, shall be within the absolute discretion of Bank. It is the intent of the parties that the Transaction comply with the requirements of Rule 10b5-1(c)(1)(i)(B) of the Exchange Act, and the parties agree that this Confirmation shall be interpreted to comply with the requirements of Rule 10b5-1(c). Counterparty acknowledges and agrees that (A) Counterparty does not have, and shall not attempt to exercise, any influence over how, when or whether Bank effects any purchases of Shares in connection with the Transaction, (B) during the period beginning on (but excluding) the Trade Date and ending on the last day of the Relevant Period, if any, neither Counterparty nor its officers or employees shall, directly or indirectly, communicate any information regarding Counterparty or the Shares to any employee of Bank or its affiliates responsible for trading the Shares in connection with the transactions contemplated hereby, (C) Counterparty is entering into the Transaction in good faith and not as part of a plan or scheme to evade compliance with federal securities laws including, without limitation, Rule 10b-5 promulgated under the Exchange Act and (D) Counterparty will not alter or deviate from this Confirmation or enter into or alter a corresponding hedging transaction with respect to the Shares. Counterparty also acknowledges and agrees that any amendment, modification, waiver or termination of this Confirmation must be effected in accordance with the requirements for the amendment or termination of a “plan” as defined in Rule 10b5-1(c) under the Exchange Act. Without limiting the generality of the foregoing, any such amendment, modification, waiver or termination shall be made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 under the Exchange Act, and no such amendment, modification, waiver or termination shall be made at any time at which Counterparty or any officer or director of Counterparty is aware of any material nonpublic information regarding Counterparty or the Shares.

(b) Counterparty agrees that neither Counterparty nor any of its affiliates or agents shall, without prior notice to Bank, take any action that would cause Regulation M to be applicable to any purchases of Shares, or any security for which the Shares are a reference security (as defined in Regulation M), by Counterparty or any of its affiliated purchasers (as defined in Regulation M) during the Relevant Period.

(c) Counterparty shall, at least one day prior to the first day of the Relevant Period, notify Bank of the total number of Shares purchased in Rule 10b-18 purchases of blocks pursuant to the once-a-week block exception contained in Rule 10b-18(b)(4) by or for Counterparty or any of its affiliated purchasers during each of the four calendar weeks preceding the first day of the Relevant Period and during the calendar week in which the first day of the Relevant Period occurs (“Rule 10b-18 purchase”, “blocks” and “affiliated purchaser” each being used as defined in Rule 10b-18).

(d) During the Relevant Period, Counterparty shall (i) notify Bank prior to the opening of trading in the Shares on any day on which Counterparty makes, or expects to be made, any public announcement (as defined in Rule 165(f) under the Securities Act of 1933, as amended (the “**Securities Act**”), of any merger, acquisition, or similar transaction involving a recapitalization relating to the Company (other than any such transaction in which the consideration consists solely of cash and there is no valuation period), (ii) promptly notify Bank following any such announcement that such announcement has been made, and (iii) promptly deliver to Bank following the making of any such announcement a certificate indicating (A) Counterparty’s average daily Rule 10b-18 purchases (as defined in Rule 10b-18) during the three full calendar months preceding the date of the announcement of such transaction and (B) Counterparty’s block purchases (as defined in Rule 10b-18) effected pursuant to paragraph (b)(4) of Rule 10b-18 during the three full calendar months preceding the date of the announcement of such transaction. In addition, Counterparty shall promptly notify Bank of the earlier to occur of the completion of such transaction and the completion of the vote by target shareholders. Counterparty acknowledges that any such public announcement may result in a Regulatory Disruption and may cause the Relevant Period to be suspended. Accordingly, Counterparty acknowledges that its actions in relation to any such announcement or transaction must comply with the standards set forth in Section 6(a).

(e) Without the prior written consent of Bank, which shall not be unreasonably delayed or withheld, Counterparty shall not, and shall cause its affiliated purchasers (each as defined in Rule 10b-18) not to, directly or indirectly (including, without limitation, by means of a cash-settled or other derivative instrument) purchase, offer to purchase, place any bid or limit order that would effect a purchase of, or commence any tender offer relating to, any Shares (or an equivalent interest, including a unit of beneficial interest in a trust or limited partnership or a depository share) or any security convertible into or exchangeable for Shares during the Relevant Period; *provided*, however, that such affiliated purchasers shall be entitled to purchase Shares from Counterparty upon the exercise of options granted to such affiliated purchasers or pursuant to any equity-based plan of Counterparty. During such time, any purchases of Shares (or any security convertible into or exchangeable for Shares) by Counterparty shall be made through Bank (unless otherwise consented to by Bank) and subject to such conditions as Bank shall impose, and shall be in compliance with Rule 10b-18 or otherwise in a manner that Counterparty and Bank believe is in compliance with applicable requirements (including, without limitation, Rule 10b-5, Regulation 13D-G and Regulation 14E under the Exchange Act).

(f) Counterparty acknowledges that it shall not (i) declare any ordinary cash dividend on the Shares with a ex-dividend date occurring prior to or on the Valuation Date or (ii) declare any Dividend (as defined above) other than an ordinary cash dividend on the Shares, in either case that affects any Dividend for which the ex-dividend date occurs during the period from and including the Trade Date to and including the Valuation Date, and that any such declaration of a dividend shall constitute an Additional Termination Event with respect to this Transaction, with respect to which Counterparty shall be the sole Affected Party.

7.

#### Representations, Warranties and Agreements.

(a) In addition to the representations, warranties and agreements in the Agreement and those contained elsewhere herein, Counterparty represents and warrants to and for the benefit of, and agrees with, Bank as follows:

(i) (A) None of Counterparty and its officers and directors is aware of any material nonpublic information regarding Counterparty or the Shares and (B) Counterparty is in compliance in all material respects with its reporting obligations under the Exchange Act, and its most recent Annual Report on Form 10-K, together with all reports subsequently filed by it pursuant to the Exchange Act, taken together and as amended and supplemented to the date of this representation, do not, as of their respective filing dates, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(ii) Without limiting the generality of Section 13.1 of the Equity Definitions, Counterparty acknowledges that Bank is not making any representations or warranties with respect to the treatment of the Transaction under FASB Statements 133, as amended, or 150, EITF Issue No. 00-19 (or any successor issue statements) or under FASB's Liabilities & Equity Project.

(iii) Without limiting the generality of Section 3(a)(iii) of the Agreement, the Transaction will not violate Rule 13e-1 or Rule 13e-4 under the Exchange Act.

(iv) Prior to the Trade Date, Counterparty shall deliver to Bank a resolution of Counterparty's board of directors authorizing the Transaction and such other certificate or certificates as Bank shall reasonably request. Counterparty has publicly disclosed on March 1, 2007 its intention to repurchase Shares for up to USD \$500,000,000 and, since such disclosure has not purchased Shares for more than USD \$500,000,000 minus the Prepayment Amount.

(v) Counterparty is not entering into this Confirmation to create actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for Shares) or to raise or depress or otherwise manipulate the price of the Shares (or any security convertible into or exchangeable for Shares) or otherwise in violation of the Exchange Act, and will not engage in any other securities or derivative transaction to such ends.

(vi) Counterparty is not entering into this Transaction on the basis of, and is not aware of, any material non-public information with respect to the Common Stock or in anticipation of, in connection with, or to facilitate, a distribution of its securities, a self tender offer or a third-party tender offer.

(vii) Counterparty is not, and after giving effect to the transactions contemplated hereby will not be, an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(viii) (A) The assets of Counterparty at their fair valuation exceed the liabilities of Counterparty, including contingent liabilities, (B) the capital of Counterparty is adequate to conduct the business of Counterparty and (C) Counterparty has the ability to pay its debts and obligations as such debts mature and does not intend to, or does not believe that it will, incur debt beyond its ability to pay as such debts mature.

(b) Each of Bank and Counterparty agrees and represents that it is an "eligible contract participant" as defined in Section 1a(12) of the U.S. Commodity Exchange Act, as amended.

(c) Each of Bank and Counterparty acknowledges that the offer and sale of the Transaction to it is intended to be exempt from registration under the Securities Act, by virtue of Section 4(2) thereof. Accordingly, Counterparty represents and warrants to Bank that (i) it has the financial ability to bear the economic risk of its investment in the Transaction and is able to bear a total loss of its investment, (ii) it is an "accredited investor" as that term is defined in Regulation D as promulgated under the Securities Act, (iii) it is entering into the Transaction for its own account and without a view to the distribution or resale thereof, and (iv) the assignment, transfer or other disposition of the Transaction has not been and will not be registered under the Securities Act and is restricted under this Confirmation, the Securities Act and state securities laws.

(d) The parties hereto agree and acknowledge that Bank is a "financial institution," "swap participant" and "financial participant" within the meaning of Sections 101(22), 101(53C) and 101(22A) of Title 11 of the United States Code (the "**Bankruptcy Code**"). The parties hereto further agree and acknowledge that (A) this Confirmation is (i) a "securities contract," as such term is defined in Section 741(7) of the Bankruptcy Code, with respect to which each payment and delivery hereunder or in connection herewith is a "settlement payment" within the meaning of Sections 362 and 546 of the Bankruptcy Code and (ii) a "swap agreement," as such term is defined in Section 101(53B) of the Bankruptcy Code, with respect to which each payment and delivery hereunder or in connection herewith is a "transfer" and a "payment or other transfer of property" within the meaning of Sections 362 and 546 of the Bankruptcy Code, and (B) Bank is entitled to the protections afforded by, among other sections, Sections 362(b)(6), 362(b)(17), 362(o), 546(e), 546(g), 555, 560 and 561 of the Bankruptcy Code.

(e) Bank represents and warrants that it has in place and agrees that it will maintain reasonable policies and procedures, taking into consideration the nature of its business, to ensure that individuals making investment decisions will not violate laws prohibiting trading on the basis of material nonpublic information. Such individuals shall not be in possession of material nonpublic information with respect to Counterparty during all relevant times beginning on the date hereof and continuing through the Relevant Period.

8.

Other Provisions.

(a) *Alternative Calculations and Payment on Early Termination and on Certain Extraordinary Events.* If, Bank shall owe Counterparty any amount pursuant to Sections 12.2, 12.3, 12.6, 12.7 or 12.9 of the Equity Definitions (except in the event of an Insolvency, a Nationalization, a Tender Offer or a Merger Event, in each case, in which the consideration or proceeds to be paid to holders of Shares consists solely of cash) or pursuant to Section 6(d)(ii) of the Agreement (except in the event of an Event of Default in which Counterparty is the Defaulting Party or a Termination Event in which Counterparty is the Affected Party, that resulted from an event or events within Counterparty's control) (a "**Payment Obligation**"), Counterparty shall have the right, in its sole discretion, to require Bank to satisfy any such Payment Obligation by the Share Termination Alternative (as defined below) by giving irrevocable telephonic notice to Bank, confirmed in writing within one Scheduled Trading Day, between the hours of 9:00 A.M. and 4:00 P.M. New York City time on the Merger Date, Tender Offer Date, Announcement Date or Early Termination Date, as applicable ("**Notice of Share Termination**"). Upon such Notice of Share Termination, the following provisions shall apply on the Scheduled Trading Day immediately following the Merger Date, the Tender Offer Date, Announcement Date or Early Termination Date, as applicable:

Share Termination Alternative:

Applicable and means that Bank shall deliver to Counterparty the Share Termination Delivery Property on the date on which the Payment Obligation would otherwise be due pursuant to Section 12.7 or 12.9 of the Equity Definitions or Section 6(d)(ii) of the Agreement, as applicable (the "**Share Termination Payment Date**"), in satisfaction of the Payment Obligation.

Share Termination Delivery Property:

A number of Share Termination Delivery Units, as calculated by the Calculation Agent, equal to the Payment Obligation divided by the Share Termination Unit Price. The Calculation Agent shall adjust the Share Termination Delivery Property by replacing any fractional portion of a security therein with an amount of cash equal to the value of such fractional security based on the values used to calculate the Share Termination Unit Price.

Share Termination Unit Price:

The value of property contained in one Share Termination Delivery Unit on the date such Share Termination Delivery Units are to be delivered as Share Termination Delivery Property, as determined by the Calculation Agent (pursuant to Paragraph (e) of this Section 9) and notified by the Calculation Agent to Bank at the time of notification of the Payment Obligation.

Share Termination Delivery Unit:

In the case of a Termination Event, Event of Default or Delisting, one Share or, in the case of an Insolvency, Nationalization, Merger Event or Tender Offer, a unit consisting of the number or amount of each type of property received by a holder of one Share (without consideration of any requirement to pay cash or other consideration in lieu of fractional amounts of any securities) in such Insolvency, Nationalization, Merger Event or Tender Offer. If such Insolvency, Nationalization, Merger Event or Tender Offer involves a choice of consideration to be received by holders, such holder shall be deemed to have elected to receive the maximum possible amount of cash.

Failure to Deliver:

Applicable

Other applicable provisions:

If Share Termination Alternative is applicable, the provisions of Sections 9.8, 9.9, 9.10, 9.11 (except that the Representation and Agreement contained in Section 9.11 of the Equity Definitions shall be modified by excluding any representations therein relating to restrictions, obligations, limitations or requirements under applicable securities laws as a result of the fact that Counterparty is the Issuer of the Shares) and 9.12 of the Equity Definitions will be applicable, except that all references in such provisions to "Physically-Settled" shall be read as references to "settled by Share Termination Alternative" and all references to "Shares" shall be read as references to "Share Termination Delivery Units".

(b) *Calculations.* All determinations made by the Calculation Agent shall be made in good faith and in a commercially reasonable manner. Following any calculation by the Calculation Agent hereunder, upon a prior written request by the Counterparty, the Calculation Agent will provide to the Counterparty by e-mail to the e-mail address provided by the Counterparty in such a prior written request a report (in a commonly used file format for the storage and manipulation of financial data) displaying in reasonable detail the basis for such calculation.

(c) *Equity Rights.* Bank acknowledges and agrees that this Confirmation is not intended to convey to it rights with respect to the Transaction that are senior to the claims of common stockholders in the event of Counterparty's bankruptcy. For the avoidance of doubt, the parties agree that the preceding sentence shall not apply at any time other than during Counterparty's bankruptcy to any claim arising as a result of a breach by Counterparty of any of its obligations under this Confirmation or the Agreement. For the avoidance of doubt, the parties acknowledge that this Confirmation is not secured by any collateral that would otherwise secure the obligations of Counterparty herein under or pursuant to any other agreement.

(d) *Assignment.* Notwithstanding Section 7 of the Agreement, Bank may assign its rights and obligations under the Transaction, in whole and not in part, to any Affiliate of Bank effective upon delivery to Counterparty of the full unconditional guarantee by Bank, in favor of Counterparty, of the obligations of such Affiliate; *provided*, however, that Bank shall not assign its rights or delegate its obligations under this Transaction if such assignment or delegation would result in (i) an Event of Default with respect to which Bank is the Defaulting Party, a Termination Event, a Potential Event of Default with respect to which Bank would be the Defaulting Party or a potential Termination Event, (ii) Counterparty being required to pay to the transferee an amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) greater than the amount that Counterparty would have been required to pay Bank in the absence of such transfer, or (iii) Counterparty receiving a payment from which an amount has been withheld or deducted, on account of a Tax under Section 2(d)(i) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)), in excess of the amount that Bank would have been required to so withhold or deduct in the absence of such transfer, unless the transferee would be required to make additional payments pursuant to Section 2(d)(i)(4) corresponding to such withholding or deduction.

(e) *Agreement Regarding Calculations.* In calculating any adjustment pursuant to Article 11 of the Equity Definitions or any amount payable pursuant to Article 12 of the Equity Definitions or Section 6 of the Agreement, the Calculation Agent shall not take into account (i) changes to costs of funding, stock loan rates or any dividends since the trade date or (ii) losses or costs incurred in connection with terminating, liquidating or re-establishing any hedge related to the Transaction (or any gain resulting from any of them).

(f) *Special Provisions for Counterparty Payments.* The parties hereby agree that, notwithstanding anything to the contrary herein or in the Agreement, in the event that (i) an Early Termination Date (whether as a result of an Event of Default or Termination Event) occurs or is designated with respect to any Transaction and, as a result, Counterparty owes to Bank an amount calculated under Section 6(e) of the Agreement or (ii) an Extraordinary Event occurs that results in the termination or cancellation of any Transaction pursuant to Article 12 of the Equity Definitions and, as a result, Counterparty owes to Bank a Cancellation Amount or any other amount in respect to the Transaction, such amount shall be deemed to be zero. For the avoidance of doubt, the Counterparty shall not be required to make any additional cash payments (other than the Prepayment Amount) or deliver (or return) any Shares in connection with the Transaction.



[LOGO]  
**Constellation**

**Constellation Brands, Inc.**  
370 Woodcliff Drive, Suite 300  
Fairport, New York 14450  
phone 585-218-3600  
fax 585-218-3601

April 26, 2007

Mr. Robert Ryder  
2012 Denton Drive  
Cleveland Heights, OH 44106

Dear Bob:

I am pleased to extend an offer for you to join Constellation Brands, Inc. ("CB") in the position of Executive Vice President, Chief Financial Officer reporting to me.

With regards to your compensation, the following describes the package:

- Starting biweekly base compensation of \$19,615.38 (\$510,000 per annum "Base Compensation") subject to all deductions and withholdings required by law.
  - The annual bonus for your position has a target of 70% and a maximum of 140% of Base Compensation. The amount and specific terms of the bonus shall be determined, in CB's sole discretion, by the CB officers, including your direct supervisor, and the Human Resources Committee of CB's Board of Directors. Currently the bonus is determined on a basis whereby 100% is dependent on Company financial performance (EBIT and free cash flow). Your FY08 bonus will be based on full-year participation and will not be prorated.
  - With the approval of the Human Resource Committee at its next meeting which is currently scheduled for in June 2007, you will receive an option to purchase 100,000 shares of CB Class A common stock at the market price on the date of the grant of such option. You will participate in the company's long-term incentive program and be eligible to receive stock option grants under the plan as recommended by management and approved by the Human Resources Committee.
  - Your relocation expenses will be paid in accordance with our Relocation Policy which shall be provided to you. Basically, all reasonable and customary closing and relocation expenses will be covered with the exception of home purchase.
  - You are eligible for four (4) weeks paid time off (PTO) during each calendar year until such time as you become eligible for more paid time off under our paid time off policy, as such policy is amended from time to time.
  - You will be eligible for your first performance and compensation review to be conducted and effective as of March 1, 2008.
  - You will be eligible to participate in all existing employee benefit plans as you become eligible under the terms of such plans as amended, added to or discontinued from time to time, such as the health care, disability insurance, life insurance, 401(k) and profit sharing, and employee stock purchase plans. More information will be provided regarding a summary of employee benefits.
-

Mr. Robert Ryder  
April 26, 2007  
Page 2

- In the event that the Company terminates your employment without cause, the Company shall provide you with severance compensation ("Severance") equal to one year of your then current base compensation (excluding bonus), subject to your entering into the Company's standard form of Severance Agreement.
- This offer is subject to the terms of the CB Employment Application.
- The start date for this position is to be determined.

Lastly, by executing this letter of agreement, you acknowledge and agree that your employment with CB is at will, meaning that it can be terminated by you or by CB at any time, with or without cause. You further understand and agree that this letter constitutes the entire agreement of the parties, and is governed by New York State law. You hereby consent to binding arbitration under the rules of the American Arbitration Association as they relate to commercial disputes in Rochester, NY as the sole and exclusive means for resolution of any disputes that may arise hereunder or in connection with your employment. No arbitration award shall include any punitive, incidental, consequential or special damages of any kind. Any such arbitration award may be entered in any court having appropriate jurisdiction. There are no other written or oral agreements of the parties, and this letter of agreement cannot be modified or amended, except in writing executed by an Executive Officer of CB.

If you have additional questions regarding this offer, or any issues regarding your acceptance of this position, please call me within the next few days.

Sincerely,

CONSTELLATION BRANDS, INC.

/s/ Richard Sands  
Richard Sands  
Chairman & CEO

ACCEPTED AND AGREED TO:

/s/ Robert Ryder

Date:

5/8/07

370 Woodcliff Drive, Suite 300, Fairport, New York 14450  
phone 585-218-3600 / fax 585-218-3601

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[LOGO]  
Constellation

**Constellation Brands, Inc.**  
370 Woodcliff Drive, Suite 300  
Fairport, New York 14450  
phone 585-218-3600  
fax 585-218-3601

May 8, 2007

Mr. Robert Ryder  
2012 Denton Drive  
Cleveland Heights, OH 44106

Dear Bob:

This letter serves as an addendum to our offer letter to you dated April 26, 2007, signed by me.

Based on discussions with you, the following changes to the above referenced offer letter are being made:

- a) The number of CB Class A stock options referenced in the third bullet point has been increased from 100,000 stock options to 150,000 stock options. This new amount remains subject to Human Resource Committee approval in our scheduled June 2007 meeting.
- b) The amount of severance compensation found in the eighth (8<sup>th</sup>) bullet point (p. 2) has been increased to include a then target bonus i.e., target bonus percentage x base pay, in addition to the then base compensation.

Bob, all other portions of the job offer provided in the above mentioned letter (April 26, 2007) remain in effect and unchanged.

If you have any questions regarding this offer, please call me. Otherwise, please indicate your acceptance of this offer by signing and returning a signed copy of the April 26, 2007, letter and this addendum.

Sincerely,

CONSTELLATION BRANDS, INC.

/s/ Richard Sands  
Richard Sands  
Chairman & CEO

ACCEPTED AND AGREED TO:

/s/ Robert Ryder

Date:

5/8/07

**FIRST AMENDMENT TO THE CONSTELLATION BRANDS, INC.**  
**2005 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

**WHEREAS**, Constellation Brands, Inc. (the "Company") maintains the Constellation Brands, Inc. 2005 Supplemental Executive Retirement Plan (the "SERP") for the benefit of a select group of management or highly compensated employees of the Company and certain of its affiliates; and

**WHEREAS**, under Section 4.1 of the SERP, the Company is authorized to amend the SERP, and the Company has determined that amendment of the SERP now is necessary and desirable;

**NOW, THEREFORE**, pursuant to the power reserved to the Company under Section 4.1 of the SERP and by virtue of resolutions of the Board of Directors of the Company adopted at a meeting on June 27, 2007, the SERP is hereby amended, in the following particulars:

1. By replacing the second paragraph of Section 1.2 of the SERP with the following, effective as of January 1, 2007:

"The Employee Retirement Income Security Act of 1974, as amended ('ERISA') permits the provision of benefits under an unfunded plan maintained by the Company primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. The purpose of the SERP is to provide to those employees of the Company or an Affiliate, as defined below, who are selected by the Company from year to year, benefits which would be provided under the Plan without regard to the Compensation Limit or the Section 415 Limit, or other limits with respect to certain Company contributions under the Plan. In no case, however, may any Company contribution to the SERP relate to, or be determined with respect to, any elective contributions made by any employee to the Plan. For purposes of the SERP, the term 'Affiliate' means a corporation, trade or business that is a member of a controlled group of corporations, a group of trades or businesses (whether or not incorporated) under common control or an 'affiliated service group,' (all as defined in Sections 414(b), 414(c) and 414(m) of the Code) that includes the Company. The term 'Affiliate' also includes a corporation, trade or business that is required to be aggregated with the Company pursuant to regulations under Section 414(o) of the Code. In applying the term 'Affiliate' for purposes of the SERP, the standard of control under Sections 414(b) and 414(c) of the Code will be deemed to be at least 50%."

2. By replacing the terms "Related Business" and "Related Businesses" each time either term is used in Sections 2.1, 2.6(c)(1), 3.1 with the term "Affiliate" or "Affiliates," as appropriate, effective as of January 1, 2007.
  3. By replacing Section 2.5(b) of the SERP with the following, effective as of April 8, 2005:
-

"(b) he or she shall become vested in his or her Annual Benefit Credits to the same extent that the Participant is vested in his or her Employer Supplemental Contributions under the Plan."

4. By replacing Section 2.6(a) of the SERP with the following, effective as of January 1, 2007:

"The vested SERP Account of a Participant, including any Participant who is a specified employee, within the meaning of Code Section 409A, shall be paid in a lump sum in cash promptly after the date ('Payment Date') that is six months after the date of his or her separation from service, within the meaning of Code Section 409A(a)(2)(A)(i) ('Separation Date'). For all purposes under the SERP, a transfer of employment to any entity that is not an Affiliate is a separation from service. The unvested portion of the Participant's SERP Account shall be forfeited on the Separation Date."

5. By deleting the second paragraph of Section 2.6(a) of the SERP in its entirety, effective as of January 1, 2007.

6. By replacing Section 2.6(b) of the SERP with the following, effective as of January 1, 2007:

**"AFFILIATE EMPLOYEES.** In the event that a Participant is an employee of an Affiliate, other than the Company, and the Affiliate has a Change of Control, the Participant shall be 100% vested in his or her SERP Account and the Participant's entire SERP Account shall be distributed to the Participant promptly in the form of a lump sum distribution. Notwithstanding the preceding sentence, such vesting and distribution shall only occur if neither the Company nor an entity that is an Affiliate after such transaction employs the Participant after such transaction. For this purpose, an Affiliate shall be deemed to have a Change of Control with respect to any event that would be a Change of Control within the meaning of Section 2.6(c), if the term 'Company' were replaced with the term 'Affiliate' each time it is used therein."

7. By replacing the first paragraph of Section 2.6(c) with the following, effective as of January 1, 2007:

"Notwithstanding anything in this Section 2.6 to the contrary, in the event of the occurrence of a Change of Control with respect to the Company all Participants shall be 100% vested in their SERP Accounts, the SERP shall be terminated and the entire SERP Account of each Participant shall be distributed to the Participant promptly after the Change of Control, or, if the Participant has already experienced a Separation Date, after his or her Payment Date, in the form of a lump sum distribution. For this purpose a "Change of Control" shall mean an event which (i) is described in Code Section 409A(a)(2)(A)(v) and (ii) satisfies either of the following:"

8. By adding the following paragraph at the end of Section 2.6(c)(2), effective as of January 1, 2007:

"Persons will not be considered to be acting as a group solely because they purchase assets of the Company at the same time. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of assets, or similar business transaction with the Company. If a person, including an entity, owns stock in the Company and another corporation that enters into a merger, consolidation, purchase or acquisition of assets, or similar transaction with the Company, such shareholder is considered to be acting as a group with other shareholders of the other corporation only with respect to their ownership interest in that corporation prior to the transaction."

9. By replacing the first two sentences of Section 2.7 with the following, effective as of January 1, 2007:

"In the event of a Participant's death prior to full distribution of his or her vested SERP Account, such amount shall be paid to the beneficiary properly designated by the Participant in the manner established by the Committee to receive his or her SERP Account hereunder. Such distribution shall be made in a lump sum distribution as soon as practicable after the Participant's death."

10. By adding the following new Section 3.8, effective as of January 1, 2007:

**"CODE SECTION 409A COMPLIANCE.** Notwithstanding any provision to the contrary, this SERP is intended to comply with Code Section 409A and the interpretive guidance thereunder. The SERP shall be construed and interpreted in accordance with such intent."

11. By restating Section 4.1 of the SERP in its entirety, effective as of the date of this amendment:

**"4.1 COMPANY AUTHORITY TO AMEND.** The Company intends the SERP to be permanent, but reserves the right at any time by action of either its Board of Directors or the Human Resources Committee of its Board of Directors to modify, amend or terminate the SERP, provided however, that if a Participant has a SERP Account, benefits provided under Section 2.1 shall constitute an irrevocable obligation of the Company as applicable, to the same extent that such SERP Account, had it been an account under the Plan, would have been an irrevocable obligation of the Plan."

**IN WITNESS WHEREOF**, on behalf of the Company, the undersigned officer has executed this amendment this 9 day of July, 2007.

**CONSTELLATION BRANDS, INC.**

By: /s/ L. Denise Watson  
L. Denise Watson  
Its: Senior Vice President,  
Global Compensation and Benefits

**Exhibit 31.1**

**RULE 13a-14(a)/15d-14(a) CERTIFICATION  
OF CHIEF EXECUTIVE OFFICER**

**Constellation Brands, Inc.  
Form 10-Q for Fiscal Quarter Ended May 31, 2007**

I, Richard Sands, certify that:

1. I have reviewed this report on Form 10-Q of Constellation Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 10, 2007

/s/ Richard Sands

Richard Sands  
Chairman of the Board and  
Chief Executive Officer

**Exhibit 31.2**

**RULE 13a-14(a)/15d-14(a) CERTIFICATION  
OF CHIEF FINANCIAL OFFICER**

**Constellation Brands, Inc.  
Form 10-Q for Fiscal Quarter Ended May 31, 2007**

I, Robert Ryder, certify that:

1. I have reviewed this report on Form 10-Q of Constellation Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 10, 2007

/s/ Robert Ryder

Robert Ryder  
Executive Vice President and  
Chief Financial Officer

**Exhibit 32.1**

**SECTION 1350 CERTIFICATION  
OF CHIEF EXECUTIVE OFFICER**

**Constellation Brands, Inc.  
Form 10-Q for Fiscal Quarter Ended May 31, 2007**

In connection with the Constellation Brands, Inc. Quarterly Report on Form 10-Q for the Fiscal Quarter Ended May 31, 2007, I, Richard Sands, certify pursuant to 18 U.S.C. Section 1350 that, to the best of my knowledge:

1. The quarterly report on Form 10-Q for the Fiscal Quarter Ended May 31, 2007 of Constellation Brands, Inc. fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the periodic report on Form 10-Q for the Fiscal Quarter Ended May 31, 2007 of Constellation Brands, Inc. fairly presents, in all material respects, the financial condition and results of operations of Constellation Brands, Inc.

Dated: July 10, 2007

/s/ Richard Sands  
Richard Sands,  
Chairman of the Board and  
Chief Executive Officer



**Exhibit 32.2**

**SECTION 1350 CERTIFICATION  
OF CHIEF FINANCIAL OFFICER**

**Constellation Brands, Inc.  
Form 10-Q for Fiscal Quarter Ended May 31, 2007**

In connection with the Constellation Brands, Inc. Quarterly Report on Form 10-Q for the Fiscal Quarter Ended May 31, 2007, I, Robert Ryder, certify pursuant to 18 U.S.C. Section 1350 that, to the best of my knowledge:

1. The quarterly report on Form 10-Q for the Fiscal Quarter Ended May 31, 2007 of Constellation Brands, Inc. fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the periodic report on Form 10-Q for the Fiscal Quarter Ended May 31, 2007 of Constellation Brands, Inc. fairly presents, in all material respects, the financial condition and results of operations of Constellation Brands, Inc.

Dated: July 10, 2007

/s/ Robert Ryder  
Robert Ryder,  
Executive Vice President and  
Chief Financial Officer